

Naval Audit Service



Audit Report



Department of the Navy Acquisition Checks and Balances at Fleet and Industrial Supply Center Sigonella Naval Regional Contracting Detachments Bahrain and Dubai

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**N2010-0036
16 June 2010**

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**MEMORANDUM FOR COMMANDER, NAVAL SUPPLY SYSTEMS COMMAND
(SUP-91A)**

**Subj: DEPARTMENT OF THE NAVY ACQUISITION CHECKS AND
BALANCES AT FLEET AND INDUSTRIAL SUPPLY CENTER
SIGONELLA NAVAL REGIONAL CONTRACTING DETACHMENTS
BAHRAIN AND DUBAI (AUDIT REPORT N2010-0036)**

Ref: (a) NAVAUDSVC letter N2008-NAA000-0123 dated 10 December 2007
(b) SECNAV Instruction 7510.7F, "Department of the Navy Internal Audit"

1. The report provides results of the subject audit announced in reference (a). Section A of this report provides our findings and recommendations, summarized management responses, and our comments on the responses. Section B provides the status of the recommendations. The full text of management responses is included in the Appendix.

2. Actions taken by the Commander, Naval Supply Systems Command, meet the intent of Recommendations 1 through 19. These recommendations are closed. If you still wish to provide comments on this report, please provide all correspondence to the Assistant Auditor General for Research, Development, Acquisition, and Logistics Audits, XXXXXXXXXXXXXXXXXXXXXXXXXXXX, with a copy to the Director, Policy and Oversight, XXXXXXXXXXXXXXXXXXXX. Please submit correspondence in electronic format (Microsoft Word or Adobe Acrobat file), and ensure that it is on letterhead and includes a scanned signature.

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3. Any requests for this report under the Freedom of Information Act must be approved by the Auditor General of the Navy as required by reference (b). This audit report is also subject to followup in accordance with reference (b)

Subj: **DEPARTMENT OF THE NAVY ACQUISITION CHECKS AND
BALANCES AT FLEET AND INDUSTRIAL SUPPLY CENTER
SIGONELLA NAVAL REGIONAL CONTRACTING DETACHMENTS
BAHRAIN AND DUBAI (AUDIT REPORT N2010-0036)**

4. We appreciate the cooperation and courtesies extended to our auditors.



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Section A:

Results of Audit and Corrective Actions

Reason for Audit

The audit objective was to verify that Department of the Navy (DON) checks and balances for the Fleet and Industrial Supply Center Sigonella, Italy (FISCSI) Detachments Bahrain and Dubai acquisition/contracting operations were in place to detect, deter, and prevent fraud, waste, and abuse, in compliance with Federal, Department of Defense (DoD), and DON acquisition requirements.

The audit was conducted in response to the then-Secretary of the Navy's (SECNAV's) concern about internal controls over acquisition at overseas locations. In October 2007, SECNAV chartered an Acquisition Governance Project Team to examine overseas acquisition checks and balances intended to detect, deter, and prevent fraud, waste, and abuse and identify vulnerabilities. The Assistant General Counsel of the Navy (Acquisition Integrity) and the Auditor General co-led the team. This audit in Bahrain and Dubai supported the then-SECNAV's Acquisition Governance initiative.

Ethics Program

We performed a limited review of the ethics program for Naval Support Activity, FISCSI Detachments in Bahrain and Dubai. We determined that the command did have an effective ethics program in place in terms of the systems, processes, and procedures to attain compliance with DoD 5500.7-R, "Joint Ethics Regulation," and Executive Order 12674, "Principles of Ethical Conduct for Government Officers and Employees."

Noteworthy Accomplishments

We found that the FISCSI Detachments Bahrain and Dubai Officer-in-Charge of contracting and the Director of Acquisition made certain that the contracting staff, which also included foreign nationals, were Defense Acquisition Workforce Improvement Act (DAWIA)-certified to perform their assigned tasks, and received in-house training on contract administration.

We also found that the FISCSI Detachments Bahrain and Dubai contracting officials had taken measures to improve their contracting practices by implementing the recommendations from the Procurement Performance Management Assessment Program (PPMAP) review, dated 26 October 2006. The improvements include the FISCSI

Detachments Bahrain and Dubai contracting officials performing quarterly quality reviews on contract action files, more effective communication with the U.S. Naval Force Central Command (NAVCENT) Comptroller's office, and providing in-house training (given by the Commander, Director of Acquisition, or a contracting officer) on the proper procedures for performing contract administration.

Background and Pertinent Guidance

Background

The Commander, Fleet and Industrial Supply Centers (COMFISCS) functions as Naval Supply Systems Command's (NAVSUP's) global provider of integrated supply and support services to fleet units and shore activities; and as the interface with systems commands; fleet/type commanders; Commander, Navy Installations Command; and regional commanders to formulate common policies and procedures across seven FISCs¹ and performs other functions as directed by NAVSUP. According to FISCSCI Detachment Bahrain contracting officials, the FISCSCI Detachments Bahrain and Dubai provide support throughout Southwest Asia only, coinciding with the U.S. Central Command (CENTCOM) Area of Responsibility. The FISCSCI Detachment Naples provides support throughout Europe, the Mediterranean, and Africa. The FISCSCI Detachment Bahrain is located at Naval Support Activity, Manama, Bahrain. The Dubai site is co-located with the U.S. Consulate in Dubai, United Arab Emirates.

Pertinent Guidance

See Exhibit E.

Synopsis

During our audit, we found that the FISCSCI Detachments Bahrain and Dubai contracting officials have taken some measures to improve the contracting process and to put in place controls to help detect, deter, and prevent fraud, waste, and abuse. However, we found improvements were needed in the areas of contract administration and management oversight, the source selection process and the funding and payment documentation process. This occurred because internal controls over intra-agency and other procurements needed improvement to provide reasonable assurance that services or products were acquired efficiently and effectively.

¹ The seven FISCs are located in San Diego, CA.; Norfolk, VA.; Jacksonville, FL.; Yokosuka, Japan; Pearl Harbor, HI.; Bremerton (Puget Sound), WA.; and Sigonella, Sicily, Italy.

The universe for Fiscal Year (FY) 2006 consisted of 3,420 contract actions valued at \$58.8 million. The universe for FY 2007 consisted of 3,021 contract actions valued at \$66.1 million. In addition, FY 2006 and FY 2007 universes also included contract actions that were awarded under the basic husbanding contract (N49400-05-D-A008). The husbanding contract, valued at \$50.2 million, was awarded by the FISCSI Detachment Bahrain office on 08 June 2005. We selected our audit sample from the three combined universes.

We judgmentally selected 39 contract actions, totaling \$27.8 million,² on which to perform an in-depth audit (see Exhibit A, “Summary of Contract Actions Audited”). For some of the contract and procurement transactions we audited, we identified problems with contract administration and management oversight, the source selection process, and the funding and payment documentation process.

Further, the FISCSI Detachments Bahrain and Dubai contract officials did not fully comply with the Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), and other DoD and DON acquisition and appropriation guidance for some contract actions (see Exhibit E, “Pertinent Guidance” as discussed throughout the audit report). As a result, the FISCSI Detachments Bahrain and Dubai could not consistently demonstrate that their customers received the quality of services or products for which they paid.

Discussion of Details

Contract Administration

Contract Files

The FISCSI Detachments Bahrain and Dubai did not maintain complete contract files for contract actions as required by FAR 4.801(a)(b). The contract action files contained many of the documents needed to sufficiently support contractual actions. For some actions, however, key documents were missing. Thirty-eight (97 percent) of 39 contract action files, totaling \$27.8 million³ for FYs 2006 and FYs 2007, had one or more missing documents. (See Exhibit B, Table 1 - “Contract Administration,” column 1 for details and review contract actions labeled “N”).

Per the FAR, it is critical that documentation in the contract files be sufficient to constitute a complete background of the acquisition process, support contract actions, and

² Includes seven contract actions, valued at \$12.1 million, from Husbanding Contract N49400-05-D-A008.

³ The total value of the 39 contract actions audited and the 38 of the 39 contract actions for which we found missing documentation both equal \$27.8 million. The value of the 38 contract actions, however, is due to rounding, in that 1 of the 39 contract actions (N49400-06-P-0408), which included all pertinent documents to support contractual actions, was valued at \$1,380.

provide information for reviews, investigations, and furnishing facts in the event of litigation or Congressional inquiries.

Contract Closeout Process

FISCSI Detachment Bahrain did not have sufficient management controls to provide reasonable assurance that contracts were closed out in a timely manner. This occurred because the FISCSI Detachment Bahrain contracting office did not give contract closeout a high priority and therefore did not comply with FAR 4.804-2(a)(b)(c), “Closeout of the Contracting Office Files if another Office Administers the Contract,” and FAR 4.804-5(c), “Procedures for Closing-Out Contract Files.” The FISCSI Detachment Bahrain personnel responsible for contract closeout have to manually close out the contracts as well as perform numerous other administrative and contracting tasks. On 12 March 2008, the FISCSI Detachment Bahrain contracting office sent us an e-mail message stating that there were 1,060 contract actions are pending closeout. In addition, they provided us with a copy of their FY 2007 Bi-Monthly Report for Contract Closeout. We reviewed this report, which shows that contract actions beginning in October 2006 are pending closeout.

Contract closeouts and deobligation of excess funds in a timely manner is important so that the funds can be used for other projects. Closing contracts promptly resolves payment issues to vendors and prevents closeout issues, such as unauthorized commitments, loss of cancelling funds, and overpayments on closed contracts. For example, on 19 December 2005, the FISCSI Detachment Bahrain contracting office performed the reconciliation of funding to disbursements paid on contract action N49400-03-C-A002 that expired 29 April 2005 (last payment on 09 September 2004) and realized that the contractor had been over paid by \$405,848. On 24 January 2006, the FISCSI Detachment Bahrain contracting office was able to recoup the overpayment and deposited the funds with the NAVCENT Comptroller’s office.

Quality Assurance Surveillance Plan

Contract files for 23 (59 percent) of the 39 contract actions audited, totaling \$27 million, were for acquisition of commercial supplies and services. As such, they did not require a Quality Assurance Surveillance Plan (QASP), in accordance with FAR 12.208, “Contract Quality Assurance.” (See Exhibit B, Table 1- “Contract Administration,” column 2 for details, and review contract actions labeled “N/A”). In addition, 14 (36 percent) of the 39 contract actions, totaling \$480,250, were below the simplified acquisition threshold (contract actions were for the purchase of supplies and products, not services). As such, they did not require a QASP, in accordance with DFARS 246.404, “Government Contract Quality Assurance for Acquisitions at or below the Simplified Acquisition Threshold.” (See Exhibit B, Table 1- “Contract Administration,” column 2 for details, review contract actions labeled “N/A”). The remaining 2 (5 percent) of the 39 contract

actions, totaling \$288,502, had evidence of a QASP through the material inspection and receiving reports (DD Form 250) in accordance with the Federal and DON guidance.

According to FAR 12.208, contracts for commercial items shall rely on contractors' existing quality assurance systems as a substitute for Government inspection and testing before tender for acceptance unless customary market practices for the commercial item being acquired include in-process inspection. Any in-process inspection by the Government shall be conducted in a manner consistent with commercial practice.

Management Oversight

Validity of Requirements

We identified internal control weakness in the following areas: FISCSI warranted contract authority, procurement and approval, and authorized commitments. (See Exhibit B, Table 1- "Management Oversight," columns 3 through 5 for details and review contract actions labeled "N").

FISCSI Warranted Contract Authority. The FISCSI Detachments Bahrain and Dubai contracting offices exceeded their warranted contracting authority by entering into contractual agreements for construction and long-term leasing of facilities without having a valid Real Estate Warrant or delegation of authority from the Naval Facilities Engineering Command (NAVFAC) offices. This occurred because the FISCSI Detachments Bahrain and Dubai contracting offices did not comply with NAVSUP Instruction (NAVSUPINST) 4200.85D dated 25 April 2005. (See Exhibit B, Table 1 - "Management Oversight," column 3 for details, and review contract actions labeled "N").

According to NAVSUPINST 4200.85D dated 25 April 2005, "lease of offices and other real property is the purview of NAVFAC." It further states that only "contracting officers of NAVFAC are authorized to buy construction." It defines "construction" as the erection, installation, or assembly of a new facility; and the addition, expansion, extension, alternation, conversion, or replacement of an existing facility. Furthermore, DON activities with a delegation of purchase card authority from their Housing Contracting Authority (HCA) also have the authority to purchase facility services up to \$2,500 and facility improvement (construction) up to \$2,000 using their HCA authorized purchase card.

Contrary to these requirements, we found:

- Contract action N4940007P0145, valued at \$82,000, was awarded by the FISCSI Detachment Dubai office on 15 January 2007. This was a lodging requirement for 12-month leasing of villas for the Naval Support Activity Forces;

- Contract action N494000ME326, P0002 and P0003, valued at \$708,000 for the U.S. Coast Guard, was for a 6-month leasing of 12 villas, with an option to extend for an additional 6 months. They exercised the option to extend the contract in December 2004 by signing and awarding it on 5 June 2004; and
- Contract action N4940006PB267, valued at \$94,544, was for modular buildings at Camp Patriot in Kuwait. The rationale for awarding the contract action was that it was necessary because the Kuwaitis wanted to improve the appearance of the base. The contract was signed and awarded 8 August 2006.

In addition, on 8 February 2008, the NAVFAC Europe and Southwest Asia (NAVFAC-EURSWA) Real Estate Contracting Officer sent an e-mail to the NAVFAC Bahrain real estate department. The e-mail was in response to our (Naval Audit Service) questions regarding delegation of authority to the FISCSI Detachment Bahrain and Dubai contracting office for long-term leasing of lodging and performance of construction work. The e-mail stated, *“It in no way gave any type of Real Estate contracting authority to NRC Dubai, as I assumed they executed their programs as duly warranted contracting officer.”*

Procurement and Approval. The FISCSI Detachment Bahrain contracting officer did not consistently make certain that all pertinent documents applicable to the contract actions were maintained in the contract action files in accordance with FAR 4.803(b)(2) and (19), “Contract Administration Office contract files.” For example, for contract actions N49400-07-C-G008, valued at \$296,000, and N49400-07-C-G009, valued at \$583,000, the FISCSI Detachment contracting officer, who has warranted authority to sign government contracts for up to \$10 million, prepared the Statement of Work to say the following: *“the 26th [Marine Expeditionary Unit (MEU)] reserves the right to remit payments if services are rendered that weren’t agreed upon within the technical agreement or by written change authorized by the U.S. Marine Corps contracting officer or the certifying officer for the Exercise Infinite Moonlight 2007.”* However, the technical agreement was not in the contract actions files for our review. Further, the FISCSI Detachment Bahrain contracting office was not able to provide documentary evidence to show that its contracting officer monitored the contracts for any changes made by the Marine Corps contracting officer to make certain that changes made did not exceed the Marine Corps contracting officer’s warranted authority, or that the changes to the technical agreement did not affect the contract actions. Also, we requested, but the FISCSI Detachment Bahrain contract office was unable to provide, a copy of the warrant for the certifying officer identified on the Statement of Work (SOW) as having the authority to make changes to the technical agreement for contract actions N49400-07-C-G009 and N49400-07-C-G008.

Additionally, the FISCSI Detachment Bahrain contracting officer provided us with a copy of the warrant that granted the Marine Corps contracting officer the authority to bind the Government in contract actions up to \$100,000. However, contract

N49400-07-C-G008 valued at \$296,000 (initial value = \$184,190), and contract N49400-07-C-G009 valued at \$583,000 (initial value = \$167,270), including the modifications for each of these contract actions, exceeded the Marine Corps contracting officer's warrant.

In addition, DD Form 577, "Appointment/Termination Record for Certifying Officer," and NAVSUPINST 4200.99, dated 13 October 2006, outline the duties and responsibilities of a certifying officer. Neither document gives a certifying officer the authority to make changes to contracts (see Exhibit B, Table 1- "Management Oversight," column 4 for details, and review contract actions labeled "N").

This occurred because the FISCSI Detachment Bahrain contracting officer did not comply with FAR 4.803(b) (1) (2), "Contract Administration Office Contract Files," FAR 1.602-1(b), "Contracting Officers Authority," and FAR 1.602-2(a), "Contracting Officers Responsibilities."

According to FAR 1.602-1(b), no contract shall be entered into unless the contracting officer ensures that all requirements of law, executive orders, regulations, and all other applicable procedures, including clearances and approvals, have been met. In addition, FAR 1.602-2(a) states that the contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. In order to perform these responsibilities, contracting officers should be allowed wide latitude to exercise business judgment. Contracting officers shall ensure that the requirements of 1.602-1(b) have been met.

Without appropriate controls in place to make certain that only the appropriate personnel are entering into agreements on behalf of the Government, FISCSI Detachment Bahrain's potential risk may include procurement fraud, waste, and abuse, including unwarranted personnel obligating the Government, misuse of funds, or receiving inferior services or products.

Authorized Commitments. One (3 percent) of 39 contract actions we audited had an unauthorized commitment, valued at \$13,088, against a contract that had been closed for 2 fiscal years (see Exhibit B, Table 1 - "Management Oversight," column 5 for details and review contract actions labeled "N"). During FYs 2005 through 2007, USNS *Catawba* made a direct commitment to procure services directly from the contractor under contract action N494007PG042 instead of requisitioning for services through the FISCSI Detachment Bahrain contracting office. Contract action N494007PG042 expired in FY 2005. The FISCSI Detachment Bahrain contracting office was not aware of the acquisition until the Dealer Invoice Payment Office notified them that USNS *Catawba* was ordering against an expired contract, and that the contract did not have available funds to pay the outstanding bill. The FISCSI Detachment Bahrain contracting office, acting as the mediator between the contractor and the commanding

officer of USNS *Catawba*, assisted the commanding officer of USNS *Catawba* with obtaining funds to pay the outstanding bills. On 9 February 2007, the commanding officer of USNS *Catawba*, in compliance with NAVSUPINST 4200.85D and NAVSUPINST 4200.81B (dated 11 September 1995), sent a memorandum entitled “Unauthorized Commitment for Stevedore Services” to the commanding officer at FISCO Navy Regional Contracting Detachment-Bahrain. The memorandum described the circumstances that led to the unauthorized commitment and measures taken to prevent a recurrence of the unauthorized commitments, and stated that the procurement was a bona fide Government requirement. In addition, a PPMAP review of the FISCO contracting sites, which included the FISCO Detachments Bahrain and Dubai, was performed from 10-26 October 2006. The PPMAP report stated “*there are currently no unauthorized commitments in house.*” However, the contract files did not include the ratification documents, nor was there documentary evidence to support whether the PPMAP team and the FISCO legal counsel had reviewed the unauthorized commitment for contract action N494007PG042, valued at \$13,088, as required by FAR 1.6 and NAVSUPINST 4200.81B.

According to NAVSUPINST 4200.81B, “Every Ratification of an unauthorized commitment will be reviewed by legal counsel assigned by Field Counsel or counsel proficient in contracting.” NAVSUPINST 4200.81B, further states that the: (1) activities shall maintain a record of all ratification actions, and (2) unauthorized commitment file will be reviewed during the Procurement Management Review.

Data Integrity in the Federal Procurement Data System-Next Generation (FPDS-NG)

From our sample of 39 contract actions, we judgmentally selected and reviewed 10 contract actions valued at \$1.9 million to verify the integrity of the contract actions data that the FISCO Detachments Bahrain and Dubai contracting official(s) entered in the Federal Procurement Data System-Next Generation (FPDS-NG). We selected the 10 contract actions because the Product Service Code or the North American Industry Classification System (NAICS) code and descriptions as shown in the Naval Audit Service Data Mining download, from the FPDS-NG system, of contract actions for contract actions awarded by the FISCO Detachments Bahrain and Dubai for FY 2006 and FY 2007, showed that unusual types of goods or services were procured. For example, the Product Service Code and/or the NAICS code descriptions for the 10 contract actions included items such as women’s underwear and nightwear, gym registration, motor passenger service, and construction contracts.

Based on our review of the contract action files, we found no problems with 6 (60 percent) of the 10 contract actions, valued at \$1.1 million. However, for 4 (40 percent) of the 10 contract actions totaling \$742,338, the Product Service Code or

the NAICS descriptions were mislabeled, or the FPDS-NG data were incomplete. For example:

- Contract action N49400-06-F-0079, valued at \$18,338, for eight diesel generators, had a Product Service Code description of “Underwear and Nightwear, Women’s.” Product Service Code and description “6115 – Generators and Generator Sets, Electrical” should have been used instead.
- Contract action N49400-04-ME326,⁴ P0001 thru P0003, totaling \$708,000, had the contractor’s name blank.
- Contract action N49400-07-P-B168 valued at \$8,000 and contract action N49400-06-P-B247 valued at \$8,000 for leasing of cold storage facilities, were mislabeled as construction contracts (NAICS code 236220). NAICS code and description “531130 - Lessors of Miniwarehouses and Self-Storage Units” should have been used instead.

We found that the FISCSI Detachments Bahrain and Dubai did not periodically perform assessments or reviews of data maintained in their contracting activity database in accordance with FAR 4.602, “Contract Reporting FPDS-NG.” However, according to the FISCSI Detachment Bahrain and Dubai contracting officials in their management comments to us (dated 30 July 2009), *“they participate in NAVSUP’s Quality Assurance Self Assessment (QASA) program which requires the review of all contracts over \$100,000 and a random 10% of all other contracts on a quarterly basis. QASA includes the following three questions regarding FPDS-NG / DD350 data: (1) was the DD Form 350/ Contract Action Report (CAR) completed timely and signed IAW PGI 204.670-3? (2) Was the DD Form 350/CAR coded correctly? (3) Was the contract file adequately maintained IAW FAR 4.8 and DFARS 204.8?”* The FISCSI Detachment Bahrain and Dubai contracting officials provided us with a copy of the form they use for performing the QASA.

According to FAR 4.602, the FPDS-NG is critical to efforts in improving the collection and reporting of accurate and complete procurement data across the Federal Government. The data in FPDS-NG are used for reports to the President, Congress, Government agencies, and the general public. In addition, FPDS-NG is a means of measuring and assessing the impact of Federal contracting on the nation’s economy and small-owned businesses. Lastly, FPDS-NG is intended to provide timely and accurate data enabling users to generate their own reports, and provide user-friendly access to data.

⁴ During the audit, the “Individual Contracting Action Report – DD Form 350,” was not in the contract action file for contract action N49400-04-ME326, P0001 and P0003. On 30 July 2009, the FISCSI Detachment Bahrain contracting officials provided the Naval Audit Service with a copy of the “Individual Contracting Action Report – DD Form 350” for this contract action.

As a result, without sufficient oversight to make certain that information entered into the FPDS-NG is accurate and complete, FISCSI Detachments Bahrain and Dubai potential risks include: (1) the best possible purchase or award decisions may not have been made; (2) data used for recurring and special reports will be incomplete, inaccurate, and, therefore, misleading; (3) the FPDS-NG may not be a reliable means of conducting significant analyses; and (4) sufficient controls and procedures are not in place to prevent, detect and deter fraud, waste, and abuse.

Data Integrity Using Data Universal Numbering System (DUNS) Numbers in the FPDS-NG

Based on our review of the Naval Audit Service Data Mining Department download of contract actions from the FPDS-NG system for contract actions awarded by the FISCSI Detachments Bahrain and Dubai for FY 2006 and FY 2007, we found that the FISCSI Detachments Bahrain and Dubai contracting officials used dummy default Data Universal Numbering System (DUNS) numbers for 1,100 of 7,241 contract actions, totaling \$21.5 million, that were awarded during FY 2003 through FY 2007, ranging from 2 in FY 2003 to 593 in FY 2007. The 39 contract actions we audited included 7 of the 1,100 actions with dummy DUNS numbers. The seven actions were valued at \$1.1 million and had dummy default DUNS numbers for foreign contractors or vendors whose addresses defaulted to a “P.O. Box” and “Bill to” addresses at “2011 Crystal Drive, Arlington, Virginia” (see Exhibit A, “Summary of Contract Actions Audited,” and review legend item number 4). We asked the FISCSI Detachments Bahrain and Dubai Contracting and Deputy Contracting Officers-in-Charge why they had used dummy default DUNS numbers. They indicated that they used them for foreign contractors or vendors who were unable or chose not to register in the Central Contractor Registration database. Those who were unable were contractors/vendors who did not have access to, or did not have the appropriate equipment to access, the Internet. Also, in some instances, reportedly, the contractors/vendors did not trust the U.S. Government. In addition, the FISCSI Detachments Bahrain and Dubai contracting officials did not have controls in place for monitoring the use of dummy DUNS numbers assigned to foreign contractors or vendors in accordance with FAR 4.602, “Federal Procurement Data System” section and the “DUNS Guide [for] Government Vendors.” Using dummy or default DUNS numbers enabled contracting personnel to enter 1,100 contract actions, totaling \$21.5 million, into the FPDS-NG during FY 2003 through FY 2007 to acquire needed goods and services.

According to the FISCSI Detachment Bahrain contracting officials in their management comments to us, dated 30 July 2009, “*the FISCSI Det Bahrain and Det Dubai were following direction from NAVSUP when utilizing the “dummy DUNS numbers,” and “FISCSI has issued guidance since the time of the audit correcting this issue.”* However, they have not provided us with evidence that NAVSUP directed FISCSI to use dummy DUNS numbers, or with a copy of the guidance they issued to correct the problem of using dummy DUNS numbers.

Without the appropriate oversight of the use of DUNS numbers, and how they are assigned to foreign contractors, the FISCSI Detachments Bahrain and Dubai contracting offices are at an increased risk: (1) that sufficient controls and procedures may not be in place to detect potential procurement fraud (e.g., insufficient oversight could permit the use of P.O. box numbers that may be used to set up and make duplicate or fraudulent payments to bogus or non-existing vendors/contractors); and (2) of waste and abuse (e.g., unlawful and unfair business practices when awarding contracts to foreign vendors through unauthorized commitments).

Port Visit - Procurement Process of Naval Ships

We found that receipt of supplies ordered and delivered to ships during port visits were not consistently reviewed or verified by either the FISCSI Detachment Bahrain Fleet Liaison Officer or the contracting officer, as required by the Navy Regional Contracting Center (NRCC) Instruction 4330.1, "Port Visit and Husbanding Contract Administration Procedures in the Naval Regional Contracting Center (NRCC), Naples, Italy," dated 23 April 2004.

According to the FISCSI Detachment Bahrain contracting officials in their management comments to us, dated 30 July 2009, *"this occurred because FISCSI Detachment Bahrain is not resourced to conduct oversight on every supply and service ordered and delivered to the ships under the husbanding contract. Since each ship's Supply Officer has ordering authority under the husbanding contract, they place their own delivery orders on the husbanding contract. Therefore, ship's force conducts their own reviews and inspections of the supplies and services they ordered thus providing oversight to the products and services received. In addition to the oversight provided by the respective ship's force, the FISCSI Detachment Bahrain routinely conducts spot checks on the supplies and services delivered and always provide assistance to the customer when there are discrepancies on the services and supplies ordered or to reconcile any issue with invoices."*

We understand the difficulty FISCSI faces if resources to conduct sufficient oversight over orders delivered under the husbanding contract are scarce. However, without the appropriate oversight to verify that products and services procured and paid for were in fact delivered and loaded on the ships, the DON and the FISCSI Detachment Bahrain face an increasing risk that the products or services are not being delivered, may not meet quality standards (best value), and/or may be provisioned using unlawful practices, thus, increasing the risk of, or resulting in, fraud (e.g., resale of products, kickbacks, etc.), waste, or abuse.

Source Selection Process

We audited 39 contract actions, totaling \$27.8 million (see Exhibit A, “Summary of Contract Actions Audited” and review the legend for details), and found that: (1) seven contract actions totaling \$528,015 were special cases (contracts), which did not need justification for sole source, and therefore competition, market research, technical evaluation and price reasonableness analysis were not required; (2) 12 contract actions totaling \$3.5 million were considered sole source; and (3) 20 contract actions totaling \$23.8 million, according to Business Clearance Memorandums and other documents included in the contract actions files, had been competed. We identified problems in the following areas: sole source, competition, independent government estimates, technical evaluations, market research, price reasonableness and best value determinations, legal reviews, and acquisition planning (see Exhibit B, Table 2 - “Source Selection Process,” columns 1 thru 6, and 8 thru 10).

Special Contracts

During our audit, we found that due to the nature of the contract actions, seven (18 percent) of the 39 contract actions audited, totaling \$528,015, competition, market research, technical evaluation, and price reasonableness analyses were not required. Three (45 percent) of the seven contract actions, totaling \$340,104, were sole source contract actions.⁵

Specifically:

- Contract action N49400-06-P-0413, valued at \$88,604, was for gasoline, which is controlled by the Government of Bahrain and as such, there is really no competition – basically, the FISCSI Detachments Bahrain and Dubai contracting officials accept the current market price.
- Contract action N49400-07-P-0269, valued at \$189,000, is for port fees in Bahrain and Dubai. There is only one port, and all customers, including the United States, are required to pay annual port fees for the ships docking at the ports.
- Contract action N49400-07-P-0041, valued at \$62,500, is for cell phone air time (Dubai does not have multiple telephone companies and the service is limited).

(See Exhibit B, Table 2 - “Source Selection Process,” columns 2 through 6, and review contract actions with “N/A” and Exhibit A, “Summary of Contract Actions Audited” and review legend item number 3 for details.)

Further, for the three contract actions discussed above, the Justification and Approval (J&A) documents were prepared and documented in the contract action files in

⁵ The three sole source contract actions totaling \$340,104 are as follows: N49400-07-P-0269 valued at \$189,000; N49400-07-P-0041, valued at \$62,500; and N49400-06-P-0413 valued at \$88,604.

accordance with NAVSUP 4200.85D, “Simplified Acquisition Procedures Price Competition,” dated 25 April 2005, and FAR 6.3(b)(d), “Other Than Full and Open Competition.”

For the remaining four “special contracts,” contract action N49400-07-P-G042, valued at \$13,088, was for an authorized commitment, requiring ratification; contract actions N68171-99-A001-415, valued at \$93,178, and N49400-03-D-A043, valued at \$80,265, were for a legal dispute for unpaid bills; and contract action N49400-06-P-0408, valued at \$1,380, was for emergency plane tickets for DON military personnel. (See Exhibit B, Table 2 - “Source Selection Process,” columns 1 through 6, and review contract actions with “N/A” for details.)

Sole-Source Contracts

We found that the FISCSI Detachments Bahrain and Dubai contracting officials awarded 12 (31 percent) of the 39 contract actions, totaling \$3.5 million, as sole source awards⁶ (see Exhibit A, “Summary of Contract Actions Audited,” and review legend item number 2 for details). For the 12 sole source contract actions, we identified the following:

- Nine (75 percent) of the 12 sole source contract actions, totaling \$1.2 million, did not have documentary evidence to support statements made in the J&A (see Exhibit B, Table 2 - “Source Selection Process,” column 1 for details and review contract actions labeled “IS”). In addition, we also found that the seven contract actions files did not have documentary evidence to support whether competition was performed as documented in the J&A (see Exhibit B, Table 2 - “Source Selection Process,” column 5 for details and review contract actions labeled “IS”).
- Three (25 percent) of the 12 sole source contract actions, totaling \$2.3 million, had neither a J&A nor documentation to show whether the FISCSI Detachment Bahrain office had submitted an open “Request for Proposals/Bids” to encourage competition. (See Exhibit B, Table 2 - “Source Selection Process,” columns 1 and 5, for details and review contract actions labeled “N”).

Contracts Competed

For the remaining 20 (51 percent) of 39 contract actions we audited, totaling \$23.8 million, we found that for 13 (65 percent) of the 20 contract actions, totaling \$15.5 million, more than one offeror was solicited and at least one proposal was received in accordance with FAR 13.104, “Promoting Competition.” However, for 7 (35 percent) of the 20 contract actions, totaling \$8.3 million, we found that the contract actions files

⁶ Exhibit A identifies 15 sole source contract actions, which include these 12 contract actions and the 3 sole source contract actions discussed in “Special Contracts” (Review the Legend item Number 3 and contract actions with the plus (+) symbol).

did not have documentary evidence to support whether competition was performed as documented in the Business Clearance Memorandum (or similar documents). (See Exhibit B, Table 2 - "Source Selection Process," column 5, and review contract actions labeled "IS").

Insufficient justification and approval for other than full and open competition limits DON's opportunity and ability to get the best price or value for needed goods and services at the desired level of quality. Bidding between vendors, market surveys, and Independent Government Estimates (IGEs) are ways to establish a fair and reasonable price.

IGEs

Twenty-one (54 percent) of 39 contract actions, totaling \$22.7 million, contained documentary evidence that a price evaluation using the IGE (or similar documents) to determine price reasonableness was performed in accordance with FAR 13.106-3(a)(1)(2)(vi)(vii), "Award and Documentation." However, 11 (28 percent) of 39 contract actions, totaling \$4.5 million, did not have an IGE (see Exhibit B, Table 2 - "Source Selection Process," column 2 for details and review contract actions labeled "N"), or the documentation used to determine price reasonableness was not sufficient (see Exhibit B, Table 2 - "Source Selection Process" column 2 for details, and review contract actions labeled "IS").

The remaining seven contract actions were unique circumstances and did not require an IGE to determine price reasonableness, as discussed under "Special Contracts" above.

IGEs are a management control that allows the Government to judge price reasonableness based on the offeror's proposal. Without a good internal estimating process, the Government has no metric to measure price. Over time, inflated estimates can become the norm.

Technical Evaluation

Twenty-four (62 percent) of 39 contract action files, totaling \$25 million, contained documentary evidence to confirm that a technical evaluation or price evaluation was performed on the contractor's proposal in accordance with FAR 8.4 "Ordering Procedures for Supplies and Services"; FAR 15.404-1, "Proposal Analysis Techniques;" FAR 13.501, "Special Documentation Requirements;" and FAR 4.8 "Government Contract Files."

However, 8 (21 percent) of the 39 contract action files we audited, totaling \$2.3 million, either did not have documentation which would show that a technical evaluation had been performed (see Exhibit B, Table 2 - "Source Selection Process," column 3, for details and review contract actions labeled "N") or the technical evaluation performed

was not sufficient (see Exhibit B, Table 2 - “Source Selection Process,” column 3 for details and review contract actions labeled “IS”). For example, for contract action N49400-07-P-0186, valued at \$99,502, the Contracting Officer’s Memorandum stated: *“The contracting officer has determined the price quoted by [the contractor] fair and reasonable based on favorable comparison to the IGE and previous contract for the same and similar items under N49400-06-P-0398.”* However, neither the IGE nor prior contract action N49400-06-P-0398 was included in the contract action files. The remaining seven contract actions were unique circumstances and did not require technical evaluation as discussed under “Special Contracts” above.

The objective of proposal analysis is to ensure that the final agreed-to price is fair and reasonable. When prices are not evaluated, the Government cannot be assured of getting the right services or products at the right time for the right price.

Market Research

Contract files for 10 (26 percent) of the 39 contract actions audited, totaling \$13.2 million, contained evidence of market research. However, for 17 (44 percent) of the 39 contract actions, totaling \$11.7 million, the market research performed was not sufficient to provide reasonable assurance that the Government received the best value for the services paid. (See Exhibit B, Table 2 - “Source Selection Process,” Column 4 for details and review contract actions labeled “IS”). For example, for contract actions N49400-06-C-0015 (valued at \$601,644), N49400-06-C-0016 (valued at 729,863), and N49400-06-C-0017 (valued at \$964,603), the J&A for the three separate contract action files included a statement that the FISCSI Detachment Dubai contracting officials had performed market research to determine that additional resources or alternative sites were available and acceptable. However, we did not find documentation in the contract action files to support this statement. In addition, for 5 (13 percent) of the 39 contract actions audited, totaling \$2.4 million, the contract actions files did not contain documentation to show whether the FISCSI Detachment Dubai contracting officials had performed market research in accordance with FAR 12.202, “Market Research and Description of Agency Need,” and documented all records in the contract action files as required by FAR 4.801(a), “Government Contract files (see Exhibit B, Table 2- “Source Selection Process,” column 4, for details and review contract actions labeled “N”). The remaining seven contract actions were unique circumstances and did not require market research as discussed under “Special Contracts” above.

According to FAR 12.202, market research (see 10.001) is an essential element of building an effective strategy for the acquisition of commercial items and establishes the foundation for the agency description of need, the solicitation, and the resulting contract. FAR 4.801(a) states that “the head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions.

Price Reasonableness and Best Value Determination

Contract files for 21 (54 percent) of the 39 contract actions audited, totaling \$22.7 million, contained evidence of price reasonableness analyses. However, for 11 (28 percent) of the 39 contract actions, totaling \$4.5 million, the contract action files did not have documentary evidence to show that an analysis was performed (see Exhibit B Table 2 - "Source Selection Process," column 6 for details and review contract actions labeled "N"), or the analysis performed was not sufficient to determine price reasonableness and best value in accordance with FAR 15.404-1(b)(2)(ii)(v), "Price Analysis" (see Exhibit B, Table 2 - "Source Selection Process," column 6 for details and review contract actions labeled "IS"). For example, for contract actions N49400-06-C-0015 (valued at \$601,644), N49400-06-C-0016 (valued at \$729,863), and N49400-06-C-0017 (valued at \$964,603), the contract action files did not include sufficient documentation to support whether adequate price competition had been performed to determine if the Government was receiving the best value for the services paid in accordance with FAR 15.403(c)(1)(i)(a). The Business Clearance Memorandum (or similar document) in the contract action files indicates that the FISCSI Detachment Dubai contracting officials had submitted requests for proposals to three prospective contractors, reportedly to support the Force Protection requirement. On 17 September 2006, the FISCSI Detachment Dubai office awarded three separate contracts to the three contractors to whom they sent requests for proposals. However, the contract action files did not contain sufficient documentation to show that the contracts were awarded to the contractor(s) with the most reasonable price or best value.

According to FAR 15.403(c)(1)(i) (a), "a price is based on adequate price competition if two or more responsible offerors, competing independently, submit price offers that satisfy the Government's expressed requirement and if the award will be made to the offeror whose proposal represents the best value where price is a substantial factor in source selection."

The remaining seven contract actions were unique circumstances and did not require price reasonableness analyses/best value determination as discussed under "Special Contracts" above.

Statements of Work

Contract files for the 39 contract actions⁷ audited, totaling \$27.8 million, contained either a Statement of Work (SOW), a purchase requisition, or a purchase description (Form SF 1449 – Section "B") of the services procured in accordance with the FAR 4.801, "Government Contract Files," and NAVSUPINST 4200.85D, "Adequacy of

⁷ On 30 July 2009, the FISCSI Detachment Dubai office provided us with a copy of the contract action N49400-06-P-0269, valued at \$3,343.

the Requisition,” dated 25 April 2005 (see Exhibit B, Table 2 - “Source Selection Process,” column 7 for details).

According to the NAVSUPINST 4200.85D, the supply officer or store keeper must verify that all applicable data have been completed on the appropriate requisition document prior to processing the requisition. An adequate purchase description or SOW must be included.

Contract Termination Clause

We found no problems with the use of contract termination clauses in the contracts audited. Thirty-six (92 percent) of the 39 contract actions audited, totaling \$27.6 million, included or, in the case of contract orders for purchases made under General Service Administration schedules, incorporated by reference either a Termination for Convenience or a Termination for Cause clause as required by FAR 13.302-4, (a) (1) (2), “Termination or Cancellation of Purchase Orders”; FAR 49, “Termination of Contracts;” and FAR 52.212-4(l)(m), “Contract Terms and Conditions – Commercial Items.” The remaining three contract actions (N49400-06-P-0408, valued at \$1,380, were for emergency plane tickets for DON military personnel; and N49400-03-D-A043 and N68171-99-D-A001, totaling \$174, 823, were for legal disputes for unpaid bills) did not require a termination clause. (See Exhibit B, Table 2 – “Source Selection Process,” column 8 for details and review contract actions labeled “N/A.” Also, review the Special Contracts section of the report.)

Legal Reviews

Ten (26 percent) of the 39 contract actions files, totaling \$18.2 million, contained evidence that a legal review was performed. In addition, 16 (41 percent) of the 39 contract actions, totaling \$674,296, were under the dollar threshold requirements of the FISCSI Instruction 5801.1, “Referrals to Counsel,” dated 23 August 2006, and were not required to have a legal review performed (see Exhibit B, Table 2 - “Source Selection Process,” column 9 for details and review contract actions labeled “N/A”). However, 13 (33 percent) of the 39 contract action files we audited, totaling \$8.9 million, did not have documented evidence that legal reviews were consistently performed as required by FISCSI Instruction 5801.1, “Referrals to Counsel,” dated 23 August 2006, and FAR 4.803(a) (24) “Contents of Contract Files.” (See Exhibit B, Table 2 - “Source Selection Process,” column 9 for details and review contract actions labeled “N”). The FISCSI Detachments Bahrain and Dubai contracting officials stated that as of 25 January 2008, 18 months had elapsed since an on-site lawyer performed legal reviews at the FISCSI Detachments Bahrain and Dubai contracting offices. Instead, the contracting offices sent all contractual actions requiring legal reviews to FISCSI Naples. According to the FISCSI Detachment Bahrain contracting officials in their management comments

dated 30 July 2009, “the attorney billet has been filled in FISCSI Det Bahrain since September 2008.”

According to FISCSI Instruction 5801.1, “Referrals to Counsel,” performing legal reviews and consultations are critical to quality contracting and to avoiding protests, claims, and other legal disputes. Counsel is a key part of the FISCSI management and contracting teams and, as such, should be consulted whenever the situation warrants, regardless of the dollar amounts involved. Not performing legal reviews may result in: (1) legal advisors and management review teams questioning the contract action/decision(s) or lack of contract action/decision(s) because they do not have all of the relevant information, (2) unauthorized commitment of funds, (3) unfair and/or unlawful practices for how awarding contracts (e.g. contracts awarded based on favoritism, etc.), or (4) increased litigation or claim costs.

Acquisition Planning

Of the 39 contract action files we audited totaling about \$27.8 million, we found that 18 (46 percent) contract actions totaling about \$24.5 million, required an acquisition plan. Seventeen (94 percent) of the 18 contract actions files totaling about \$23.6 million had an acquisition plan (or similar document) identifying the need or plan of action for procuring the services or products as required by FAR Subpart 7.102(a)(1)(2), “Acquisition Planning;” FAR Subpart 7.105 (a)(4) and FAR Subpart 7.105(b)(1), “Contents of Written Acquisition Plans;” NAVSUP Policy Letter 4200 210/7042, “Management Oversight Process for Acquisition of Services,” dated 24 January 2007; and DoD FMR, Volume 11A, Chapter 18, Section 180201, “Initiating a Non-Economy Act Order.” The remaining one (6 percent) of the 18 contract action files, valued at \$906,353 (N494900-05-A-5006 for rental car services) required but did not have an acquisition plan in accordance with the NAVSUP Policy Letter 4200 210/7042. (See Exhibit B, Table 2 - “Source Selection Process,” column 10 for details, and review the five contract actions labeled “N”).

For the remaining 21 (54 percent) of 39 contract actions totaling about \$3.3 million, a written acquisition plan was not required for the following reasons:

- Five (24 percent) of the 21 contract actions, totaling about \$2.6 million, in accordance with DFARS 207.103, may be considered one-time buys (for supplies). As such, a written acquisition plan is not required. (See Exhibit B, Table 2 - “Source Selection Process,” column 10 for details, and review the contract actions labeled “N/A”).
- Sixteen (76 percent) of the 21 contract actions, totaling \$674,296, were under the dollar threshold requirement of the FAR Subpart 7.1, “Acquisition Plans,” NAVSUP Policy Letter 4200 210/7042 and DoD FMR, and were not required to

have an acquisition plan prepared. (See Exhibit B, Table 2 - “Source Selection Process,” column 10 for details, and review the contract actions labeled “N/A”).

Without acquisition planning, FISCSI Detachments Bahrain and Dubai contracting offices potential risks include: (1) DON contracting officials focusing on the wrong objectives and goals or (2) not achieving the mission outcomes (i.e. not resolving on-going problems or achieving goals and objectives), or (3) progress of acquisition not measured or monitored.

Funding Process

Of the 39 contract actions we audited, totaling \$27.8 million, (see Exhibit A, “Summary of Contracts Actions Audited,” for details) we found the following:

Funding Documents

Three (8 percent) of the of 39 contract actions, totaling \$598,811, had at least one funding document missing. On 31 January 2008, we requested copies of the funding documents from the FISCSI Detachment Bahrain contracting officials. However, the FISCSI Detachment Bahrain contracting officials were not able to provide them (see Exhibit B, Table 3 - “Funding Process,” column 1 for details, and review contract actions labeled “N”). Specifically, we found that for contract actions:

- N49400-07-C-G009, valued at \$582,380, funding documents totaling \$321,532.25 were not in the contract file;
- N49400-07-P-G042, valued at \$13,088, the funding document was not in the contract action files; and
- N49400-06-P-0269,⁸ valued at \$3,343, FISCSI Bahrain could not locate the contract action file.

Funding Deobligation/Modification Documents

Six (15 percent) of 39 contract action files, totaling \$4.6 million (based on contract action award amounts), did not have documentary evidence to support whether the funds were deobligated as required by DFARS, Procedures, Guidance, and Information (PGI) 243.171(2)(ii), “Obligation or Deobligation of Funds.” (See Exhibit B, Table 3 - “Funding Process,” column 2 for details and review contract actions labeled “N”).

- N49400-07-F-0118, valued at \$1,023,537, had an amount pending deobligation of \$2,115;

⁸ FISCSI Detachment Bahrain contracting officials provided us with the contract file along with their management comments, dated 30 July 2009, on our Discussion Draft report. However, the file did not include a copy of the funding document.

- N49400-07-C-G009, valued at \$582,380, had an amount pending deobligation \$321,532;
- N49400-05-D-A008, DO#2017, valued at \$1,961,348 had an amount pending deobligation of \$1,363,589;
- N49400-07-G-A501, JO#7081-MOD #7 valued at \$860,508 had an amount pending deobligation of \$361,974; and
- N49400-03-D-A043, valued at \$80,265 and N68171-99-D-A001, valued at \$93,178 for a grand total of \$173,443, had an amount pending deobligation of \$28,771.⁹

Without proper controls in place to ensure that obligated funds are deobligated, accounted for, recorded and documented in the contract files, the FISCSI Detachments Bahrain and Dubai contracting officials are unable to identify the obligation period, the type of funding, the source of appropriations, and whether the funds were approved by the appropriate official. Consequently, such control weaknesses may result in noncompliance with DoD and DON appropriation regulations, including violating the Antideficiency Act rule or committing an unauthorized commitment.

Administrative Control of Appropriations

We found that five contract actions totaling \$3.2 million¹⁰ were not in compliance with the FAR, DoD FMR, and the DON appropriation guidance. For example: (1) For three (18 percent) of the five contract actions, totaling \$2.3 million, the contract actions were awarded before the funds were financially accepted and approved, and (2) for five of the contract actions totaling \$3.2 million, the authorized officials name typed on the funding document does not match the name of the official who signed the funding document.

Funding for Contracts Actions Awarded. We found that for 3 (20 percent) of the 15 contract actions (see Exhibit A, “Summary of Contracts Actions Audited”) we audited at the FISCSI Detachment Dubai office totaling \$2.3 million (contract actions N49400-06-C-0015 (valued at \$601,644), N49400-06-C-0016 (valued at \$729,863), and N49400-06-C-0017 (valued at \$964,603)), the FISCSI Detachment Dubai contracting officer signed and awarded the three contract actions on 17 September 2006, although the funds were not financially accepted and approved by the COMFISCS Comptroller’s office until 29 September 2006. This occurred because the FISCSI Detachment Dubai office did not fully comply with the DoD FMR Volume 14, Chapter 1, Appendix A, “Procedures for the Administrative Control of Funds,” dated August, 1995;¹¹

⁹ These two contract actions are for a legal dispute for unpaid bills. There was only one funding document that combined both contract actions used for payment of the unpaid bills.

¹⁰ The five DoD FMR violations are: (1) Contracts awarded before funds were financially accepted and approved (which involves three contract actions - N49400-06-C-0015, N49400-06-C-0016, and N49400-06-C-0017, totaling \$2.3 million), and (2) signatures on funding documents (which involves five contract actions - N49400-06-C-0015, N49400-06-C-0016, N49400-06-C-0017, N49400-05-A-5006, and N49400-07-P-0378, totaling \$3.2 million).

¹¹ Appendix A information was consolidated and transferred, effective January 2009, to section “010206 – Apportionments, Allocations, Allotments and Reimbursable Orders,” section C “Allotments.”

NAVCOMPT Form 2276, "Request for Procurement"; FAR 1.602-1(b), "Contracting Officer Authority"; FAR 1.602-2(a), "Contracting Officer Responsibility;" and the Memorandum from the Commander, Fleet and Industrial Supply Centers, Sigonella/Dubai, dated 10 November 2005.

The memorandum gave the FISCSI Detachment Dubai contracting officer delegation of authority to review and sign as accepting official for urgent incoming Requests for Contractual Procurement documents or amendments. The memorandum stated that, *"the contracting officer must comply with all applicable requirements of the law, administrative regulations, and other requirements deemed necessary and to ensure responsibilities are properly carried out."*

According to DoD FMR Volume 14, Chapter 1, "in emergency circumstances, it may not be possible to provide a formal allotment or sub-allotment document before incurring an obligation. Under such emergency conditions, it may be necessary to use expedited means of communication pending formal confirmation. A telephone call may be used to make oral arrangements to indicate that funds will be provided. However, the official allocation or allotment of funds does not occur until the documentation of the issuance of funds has been transmitted by the issuer and received by the recipient by means of a facsimile machine (fax) record." DoD FMR further states "the official funds issuance does not occur until the final double-signed transmission document has been received by the recipient of the funds." In addition, FAR 1.602-2(a) states that the contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships. In order to perform these responsibilities, contracting officers should be allowed wide latitude to exercise business judgment. Contracting officers shall ensure that the requirements of 1.602-1(b) have been met, and that sufficient funds are available for obligation.

Furthermore, according to the Business Clearance memorandum located in the three contract actions files, the U.S. Navy lease of previously occupied housing had expired and the FISCSI Detachment Dubai contracting officer was forced to award a contract in advance of the funding acceptance. On 31 March 2008, the FISCSI Detachments Dubai contracting officer provided an email explanation, which stated the following: *"Usually if there are problems with the document, the financial analysts who review the Procurement Requests (PRs) in the Request for Procurement/Web One Touch Financial System (RCP/WebOTF) rejects the document and returns it to the sender. There was no such rejection logged in RCP/WEBOTF. Based on my experience there could have been issues with the Bahrain Internet during that period or issues with RCP/WEBOTF."*

We are aware that emergencies do occur, and as such, we reviewed the contract action files (for N49400-06-C-0015 valued at \$601,644, N49400-06-C-0016 valued at \$729,863, and N49400-06-C-0017 valued at \$964,603), including the documents presented by the FISCSI Detachment Dubai office. We did not find documentation that

would indicate whether the contracting officer had followed up to determine if the request for funding had been accepted by the Naval Support Activity Comptroller's office as required by DoD FMR, Volume 14, Chapter 1.

Validity of Signatures on Funding Documents.

For 5 (13 percent) of the 39 contract actions audited at the FISCSI Detachments Bahrain and Dubai contract office, totaling \$3.2 million,¹² the authorized official's name on the funding document did not match the name of the official who signed the funding document. For example, the acting official signed the NAVCOMPT Form 2276, "Request for Procurement," without using the word "for" before the typed name of the regular signing official as required by Secretary of the Navy Instruction (SECNAVINST) 5216.5D, Chapter 2, dated 2 June 2005, "Signing For an Absent Official," or without properly delegated authority to do so. Specifically, the five contract actions are:

- N49400-05-A-5006 valued at \$906,353, (NAVCOMPT Form 2276 valued at \$836,688);
- N49400-06-C-0017 valued at \$964,603, (NAVCOMPT Form 2276 valued at \$996,244);
- N49400-06-C-0016 valued at \$729,863, (NAVCOMPT Form 2276 valued at \$729,863);
- N49400-06-C-0015 valued at \$601,644, (NAVCOMPT Form 2276 valued at \$602,643); and
- N49400-07-P-0378 valued at \$999, (NAVCOMPT Form 2276 valued at \$1,000).

According to SECNAVINST 5216.5D, "there are times when documents are in final form and the official that would normally sign the document is unable to do so. Rather than retyping the document and rerouting for concurrences, the acting official may sign the document with his or her name and the word "for" before the typed name of the regular signing official. This method is discouraged and should be used only when a delay would fail to meet a crucial deadline."

In addition, the FISCSI Detachment Bahrain and Dubai contract action files did not include documentary evidence (e.g. delegation memorandum) to verify that the acting official had the authority to sign the NAVCOMPT Form 2276 as required by the DoD FMR, Volume 14, Chapter 1, and in accordance with NAVSUPINST 4200.85D, "Funding," section and FAR 1.602-1(b), "Contracting Officers - Authority" section.

¹² Contract actions N49400-06-C-0017, N49400-06-C-0016, and N49400-06-C-0015 have two DoD FMR violations: (1) Contracts awarded before funds were financially accepted and approved, and (2) signatures and officials' names on funding documents did not match.

According to the DoD FMR, Volume 14, Chapter 1, all delegations or redelegations of authority or functions shall be made in writing. Further, DoD Officials, including commanders and supervisors to whom funds are entrusted or apportionments or administrative subdivisions of funds are issued, shall issue and maintain appropriate delegation of authority.

In addition, NAVSUPINST 4200.85D, “Funding” section states that the responsibility for controlling the obligations of funds is vested exclusively in the allotment holder or designated representative. Consequently, NAVCOMPT Form 2276 contains a certification by the approving signature block stating, “I certify that the funds cited are properly chargeable for the items requested.” For any other purchase request/requisition from the person signing/approving the document, the certification is also being made even though it may not be preprinted on the purchase request form itself. However, this does not relieve the contracting officer of ensuring that, for contracts entered into, all requirements of law, executive order, regulations and all other applicable procedures have been met as required by FAR subpart 1.602-1.

Payment Documentation Process (for Products and Services)

Vendor Invoices/DD Form 250 (Material Inspection and Receiving Reports)

FISCSI Detachments Bahrain and Dubai did not fully comply with the DoD FMR, Volume 10, Chapter 1, dated March 2002; FAR 32.905(c), 4.8 and 46.401(e) (f); DFARS 246.370 (b)(7); and DFARS 246.601. Of the 39 contract actions we audited, totaling \$27.8 million, we found:

- Seven (18 percent), valued at \$4.1 million, did not have any vendor invoices in the contract files during our site visit. However, on 1 March 2010, FISCSI Detachment Bahrain provided vendor invoices for 4 of the 7 contract orders (via email), totaling \$3.3 million. They were unable to provide invoices for the remaining three contract orders totaling \$859,884 (see Exhibit B, Table 3 - “Payment Documentation Process,” column 4 for details, and review contract actions labeled “N”); and
- One (3 percent), valued at \$62,500, did not have all of the vendor invoices or DD Forms 250 to support procurement of services. Through our reconciliation, we found that the vendor invoices or DD Forms 250 for the months July 2007 through September 2007, valued at \$60,000, were not in the contract action file (see Exhibit B, Table 3 - “Payment Documentation Process,” column 5 for details, and review contract actions labeled “N”); and
- Thirty-three (85 percent), totaling \$24.4 million, were not supported in the contract files by either DD Forms 250 (“Material Inspection and Receiving

Reports) or receiving reports (see Exhibit B, Table 3 - "Payment Documentation Process," column 6 for details and review contract actions labeled "N").

According to FAR 32.905(c), "all invoice payments, with the exception of interim payments on cost-reimbursement contracts for services, must be supported by a receiving report or any other Government documentation authorizing payment, i.e., Government certified voucher." Without sufficient controls in place to ensure that all documents are maintained in the contract files to support all contractual actions, FISCSI Detachments Bahrain and Dubai risk being billed for: (1) substandard services or supplies, or (2) services and supplies that were not received during the contractor's performance period.

Separation of Duties

We found that 15 (94 percent) of the 16 contract actions we audited at the FISCSI Detachment Dubai contracting office, totaling \$4.1 million (see Exhibit A, "Summary of Contracts Actions Audited"), had sufficient separation of duties in place. However, for 1 (6 percent) of the 16 contract actions, the FISCSI Detachment Dubai contracting official signed and awarded the contract action and certified the invoice for payment for 1 of 2 invoices (valued at \$8,767.12) under contract action N49400-07-P-0152 totaling \$12,055. This occurred because the FISCSI Detachment Dubai contract officials did not consistently adhere to the DoD FMR, Volume 1, Chapter 3, and Key Accounting Requirements Number 7, which states that "separation of duties and responsibilities must be maintained for initiating, authorizing, processing, recording and reviewing transactions." When duties can not be separated, compensating controls (internal controls) should be in place to reduce the risk of an existing or potential control weakness. If a single person can carry out and conceal errors or irregularities in the course of performing their day-to-day activities, they have been assigned incompatible duties, which may result in increased risks to the Department of the Navy. The risks include potential procurement fraud, waste, and abuse, unauthorized purchases, payment for items not received, paying higher prices, or paying for substandard products or services increases to the FISCSI Detachments Bahrain and Dubai.

Conclusion

We concluded that the FISCSI Detachments Bahrain and Dubai civilian and foreign national contracting personnel are DAWIA certified to perform their assigned tasks. In addition, we verified that the command had an effective ethics program in place to reasonably assure compliance with DoD 5500.7-R and Executive Order 12674. Further, we found the physical security of Government records and assets sufficient and in accordance with the DoD and DON regulations. We also found that while the FISCSI Detachments Bahrain and Dubai contracting officials have taken some measures, and

implemented the recommendations provided in the PPMAP review for improving their contracting practices and to help make certain that controls are in place to help detect, deter, and prevent fraud, waste, and abuse, they did not fully comply with the FAR and other DoD and DON acquisition and financial guidance. As a result, the FISCSI Detachments Bahrain and Dubai contracting offices could not consistently demonstrate that their customers received the quality of services or products for which they paid.¹³

Recommendations and Corrective Actions

Actions taken by the Commander, Naval Supply Systems Command, meet the intent of Recommendation(s) 1 through 19. Below is our recommendations, a summary of management's responses, and our comments on those responses. For the full text of management's responses, please see the Appendix.

We recommend that the Commander, NAVSUP:

Recommendation 1. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices maintain complete contract files in accordance with the FAR, DoD, and DON acquisition guidance, and complete, properly file, and maintain all key contract documents.

Management response to Recommendation 1. Concur. Sufficient policy and guidance has been executed to ensure proper controls and oversight is provided for contract file maintenance.

Navy Audit Service comment on response to Recommendation 1. Actions taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 25 March 2010.

Recommendation 2. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices ensure contracts entered into on behalf of the Government are awarded by the appropriate contracting office and that the appropriate procurement authority exists before awarding contracts for construction or real property in accordance with NAVSUPINST 4200.85D.

Management response to Recommendation 2. Concur. Our assumption is that the above recommendation is in relation to the paragraph entitled FISCSI Warranted Contract Authority on page 5-6 of the Revised Draft Audit Report,

¹³ See the Audit Results and Corrective Actions section of this report for complete details.

N2008-NAA000-0123, dated 7 April 2010. This paragraph cited three specific contracts as being in violation of procurement authority. Two of them were for the long term lease of villas (12 month). FISCOI Detachment Bahrain, and FISCOI Detachment Dubai concur that it would have been more appropriate for these actions to be executed by Navy Facilities Engineering and Acquisitions. The third contract is in relation to modular buildings. FISCOI Detachment Bahrain and FISCOI Detachment Dubai do not concur with the assertion that they do not have the proper authority to purchase modular buildings or that they are considered construction.

Navy Audit Service comment on response to Recommendation 2. Actions taken by NAVSUP, COMFISCOI, FISCOI Detachment Bahrain, and FISCOI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 22 March 2010.

Recommendation 3. Require the Commanding Officer, FISCOI Sigonella to establish controls and provide oversight to ensure that FISCOI Detachments Bahrain and Dubai contracting offices comply with FAR 1.602, "Contracting Officers," FAR 1.602-1, "Authority," and FAR 1.602-2, "Responsibilities," when awarding and monitoring contract actions.

Management response to Recommendation 3. Concur. Sufficient policy and guidance has been provided to ensure that contracting offices comply with their proper authority and responsibility.

Navy Audit Service comment on response to Recommendation 3. Actions taken by NAVSUP, COMFISCOI, FISCOI Detachment Bahrain, and FISCOI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 8 July 2008

Recommendation 4. Require the Commanding Officer, FISCOI Sigonella to establish controls and provide oversight to ensure that FISCOI Detachments Bahrain and Dubai contracting offices process the unauthorized commitment made by unwarranted Government personnel on the USNS *Catawba* in FYs 2006 through 2007, using the ratification authority of NAVSUPINST 4200.81D, and FAR 1.602-3(b)(1), (2), and (5)(c), "Ratification of Unauthorized Commitments."

Management response to Recommendation 4. Concur. Adequate controls and oversight have been implemented to ensure the proper tracking and processing of unauthorized commitments.

Navy Audit Service comment on response to Recommendation 4. Action taken (completed) by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Also, on 25 May 2010, NAVSUP/FISCSI provided supporting documentation showing that they ratified the unauthorized commitment on 29 April 2010. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 29 April 2010.

Recommendation 5. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices obtain legal counsel review of all ratifications of unauthorized commitments in accordance with NAVSUPINST 4200.81D.

Management response to Recommendation 5. Concur. Adequate controls and oversight have been implemented to ensure legal counsel review of all ratifications.

Navy Audit Service comment on response to Recommendation 5. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 8 September 2009.

Recommendation 6. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices close out contracts timely, and in accordance with the FAR, and that unneeded funds are deobligated and returned to the requesting offices.

Management response to Recommendation 6. Concur. Progress is being made toward completing the close out of backlogged contracts eligible for close out. Adequate controls and oversight are in place.

Navy Audit Service comment on response to Recommendation 6. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 11 July 2008.

Recommendation 7. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices conduct more thorough reviews of data input(s) to the FPDS-NG in accordance with the FAR.

Management response to Recommendation 7. Concur. FISCSI Detachment Bahrain and FISCSI Detachment Dubai are continually striving to ensure that data entered into FPDS-NG is as accurate as possible through training, monitoring, and oversight. Necessary controls and oversight are in place.

Navy Audit Service comment on response to Recommendation 7. Actions taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 18 March 2010.

Recommendation 8. Improve controls and oversight over the NAVSUP QASA program to ensure the program meets the intent of FAR 4.602, FAR 4.8, and DFARS 204.8.

Management response to Recommendation 8. Concur. The overall controls and oversight of the QASA program is the responsibility of NAVSUP. FISCSI Detachment Bahrain and FISCSI Detachment Dubai do not have the authority to implement controls and oversight over the NAVSUP QASA program.

The audit was conducted at the inception of the QASA implementation in FISCSI Detachment Bahrain and Dubai. Since the time of the audit, the QASA program has been followed as prescribed by NAVSUP. The QASA program is a thorough, comprehensive review which occurs quarterly on a minimum of 10 percent of all contract actions awarded during the prior quarter. Attachment K details the QASA process as prescribed by NAVSUP. Both FISCSI Detachment Bahrain and Dubai have conducted their quarterly reviews beginning the third quarter of Fiscal Year 2007 to the most recent review for the first quarter of Fiscal Year 2010. The results of these reviews are provided to individual personnel, and trends or problem areas that are identified are the basis for various training sessions to ensure continuous improvement in the quality of all aspects of the procurement.

Action on this recommendation is considered complete for reporting purposes.

Navy Audit Service comment on response to Recommendation 8. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain and FISCSI Detachment Dubai meet the intent of the recommendation. We consider this recommendation closed as of 9 January 2009.

Recommendation 9. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices obtain management approval for assignment of all DUNS/CAGE numbers, and to track and monitor the use of default DUNS numbers.

If a local contractor/vendor does not have a DUNS/CAGE number, assign the contractor a number.

Management response to Recommendation 9. Concur. Contracting Officers do not have the authority or the ability to assign contractors DUNS/Cage numbers and therefore compliance with the above statement as written is not possible.

The following information is based upon the assumption that Recommendation 9 is derived from information contained within paragraph entitled “Data Integrity Using Data Universal Numbering System (DUNS) Numbers in the FPDS NG” found on pages 10-11 of the N2008 NAA000-0128, 7 April 2010, revised draft audit report.

A contractor must have a valid Central Contractor Registration (CCR) in order to have a valid DUNS number to be utilized in the FPDS-NG system. Contracting Officers do not have authority cognizance over the CCR system; it is under the cognizance of a completely separate organization. Outside of the Continental United States (OCONUS), it is common for contractors who do not frequently conduct business with the U.S. Government to not be registered. Additionally some contractors are very skeptical of the US and refuse to be registered. The registration process itself can easily take 1 to 3 weeks. FISCSI has no control over this process.

In order to stem the number of contracts awarded to contractors without CCR registration, Policy Memorandum #16, Subject “CCR Requirement for OOTW Mission” was issued on 7 April 2009 (See Attachment L). This policy requires Contracting Officers to obtain approval prior to execution of a contract with a contractor who is not registered in CCR from either the Chief of the Contracting Office or the Deputy Chief of the Contracting Office at FISCSI.

According to FAR 4.1102(a) (5), foreign vendors do not have to be registered in the CCR if it is impractical to obtain registration. Therefore, in order to be able to report the action through FPDS-NG, a Generic DUNS and Cage Code were created. The generic DUNS and Cage Code are included in SOP 1-2, “SPS Vendor Maintenance Requirements,” issued by the office of the Lead Contracting Executive, COMFISCS (see Attachment M).

SOP 1-2 also includes procedures to follow for when an award is to a foreign vendor and they are not registered in the CCR. Essentially, a CCR waiver must be signed by only the Contracts Director or Deputy. This waiver allows for use of the generic DUNS and Cage Codes, which is the DUNS number being utilized for all contracts awarded to foreign non-CCR registered contractors (123456787). This number was specifically created by CCR for this exact purpose. When number is

entered into the CCR system, the following information appears (see Attachment N):

- Legal Business Name: Miscellaneous Foreign Contractors;
- Doing Business as (DBA): Federal EGOV IAE Initiative: Generic;
- DUNS; and
- Mailing Name: Generic DUNS Miscellaneous Foreign Contractors.

Based upon the above, proper control and oversight has been implemented to ensure that contractors are CCR registered to the extent possible. Additionally, the proper DUNS number for foreign non-CCR registered contractors is being utilized when required.

Action on this recommendation is considered complete for reporting purposes.

Navy Audit Service comment on response to Recommendation 9. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meets the intent of the recommendation. We consider this recommendation closed as of 7 April 2009.

Recommendation 10. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices make certain that the Fleet Liaison Officer and the contracting officer review every port visit to assure compliance with Naval Regional Contracting Center Instruction 4330.

Management response to Recommendation 10. Concur. Policy Memorandum #20, Subj. "Port Visit and Husbanding Contract Administrative Procedures" was issued 27 November 2009 (see Attachment O). According to the memorandum (Paragraph 4), "The Directors of Acquisition and the detachment Officers in Charge will ensure that their Fleet Liaison Officers (FLO) and Contracting Officers (KO) review all port visits to assure compliance with the procedures set out below...." Note: Naval Regional Contracting Center Instruction 4330 was cancelled with the issuance of FISCSI PM#20, and further replaced with PM#20A see paragraph 3 of the policy memorandum.

Also note, the Husbanding contract allows for ordering officers other than FISCSI personnel. These ordering officers are typically Supply Officers who have the full authority, training, and ability to place orders directly against the Husbanding contract.

Action on this recommendation is considered complete for reporting purposes.

Navy Audit Service comment on response to Recommendation 10. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain and FISCSI Detachment Dubai meets the intent of the recommendation. We consider this recommendation closed as of 27 November 2009.

Recommendation 11. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices establish effective communications between the FISCSI Contracting Office and U.S. Navy ships to prevent future occurrences of unauthorized commitments.

Management response to Recommendation 11. Concur. A FISCSI representative has attended all pre-deployment conferences on behalf of FISCSI Detachment Dubai, FISCSI Detachment Bahrain, and FISCSI Detachment Naples since September 2008. In addition to presenting (and supplying a copy of) the FISCSI Navy Regional Contracting Detachments Naples, Bahrain, and Dubai Deployment Brief dated February 2010, (see Attachment P), each ship is provided with two CDs - one covering the Mediterranean-wide contract and the other the Southwest Asia contract.

FISCSI controls to preclude further unauthorized commitments consist of the improved communication at the pre deployment conferences noted above, along with the establishment of a FISCSI Code 200 internet location at the MyNAVSUP portal with a page dedicated to customer interaction and education, anticipated for completion by 31 May 2010. However, it should be noted that unauthorized commitments by nature are accomplished by personnel who are not authorized to make such commitments. Personnel onboard ships are not under the direct cognizance of FISCSI authority – as such controls provided by FISCSI are limited in nature to efforts to improve communication and education, which FISCSI has already accomplished.

Action on this recommendation is considered complete for reporting purposes.

Navy Audit Service comment on response to Recommendation 11. Actions taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain and FISCSI Detachment Dubai meet the intent of the recommendation. This recommendation is considered closed as of February 2010.

Recommendation 12. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices perform effective source selection, to include market research, technical evaluation, promoting competition, and preparing IGEs to determine that the proposed price and services are fair and reasonable in accordance with the FAR, DoD, and DON acquisition regulations.

Management response to Recommendation 12. Concur. Adequate controls and oversight have been implemented to ensure contracting offices perform effective source selection, to include market research, technical evaluation, promoting competition, and preparing Independent Government Estimates (IGEs) to determine that the proposed price and services are fair and reasonable.

Note, the quality of these actions highly depend on training, skill level and experience of individual contract specialists and contracting officers. Therefore as the workforce changes, the process of ensuring that the duties listed above are properly executed continues to be an on-going management requirement.

Navy Audit Service comment on response to Recommendation 12. Actions taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 01 October 2009.

Recommendation 13. Require the Commanding Officer, FISCSI Sigonella to improve controls and oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices develop acquisition plans for procurements in accordance with the FAR and DON Policy Letter 4200 210/7042, and engage customers early in the development of the acquisition to allow sufficient advance notice of contracting requirements to facilitate acquisition planning.

Management response to Recommendation 13. Concur. Per DFAR[S] 207.103, Formal Acquisition Plans are required for service contracts when the total cost of all contracts for the acquisition program is estimated at \$50 million or more for all years, or \$25 million or more for any fiscal year. Additionally, Acquisition Plans are not required for one time buys.

Under those thresholds, informal acquisition planning in the form of market research, development of independent government estimates, availability of commercial items, ability to compete, etc. are all required. FISCSI Detachment Bahrain and FISCSI Detachment Dubai have implemented proper oversight and controls to ensure that planning is completed appropriately, also see NAVSUP comment regarding Recommendation 12 above.

Navy Audit Service comment on response to Recommendation 13. Actions taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 18 July 2008.

Recommendation 14. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices consistently perform legal reviews of contract actions greater than \$100,000, as required by FISCSI Instruction 5801.1.

Management response to Recommendation 14. Concur. Adequate controls and oversight have been implemented to ensure legal counsel review of all actions greater than \$100,000.

Navy Audit Service comment on response to Recommendation 14. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 8 July 2008.

Recommendation 15. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices include funding documents in the contract files and deobligate unneeded funds in accordance with PGI 243.171.

Management response to Recommendation 15. Concur. Funding documents are an integral piece of the contract file and are required for proper contract file maintenance. Adequate controls and oversight are in place to ensure proper contract maintenance. See response herein to Recommendation 1 regarding contract file maintenance.

While PGI 243.171 “Obligation or Deobligation of Funds,” is not a clear mandate to deobligate funds, a clear mandate for deobligation of excess funds on a contract after final payment is made is stated in FAR 4.804-5(a)(15), and FAR 42.302 (a)(70). As part of the standard contract closeout process, excess funds on procurement actions that are not subject to the automatic foreign currency fluctuation (FCF) adjustments are deobligated prior to closing out the contract. Attachment T, which is a supplementary handout to the closeout process, ensures a full understanding of the requirement to deobligate funding as well as the functioning and applicability of the FCF. This handout was provided to all FISCSI personnel to ensure understanding and compliance for deobligation.

Action on this recommendation is considered complete for reporting purposes.

Navy Audit Service comment on response to Recommendation 15. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. We consider this recommendation closed as of 25 March 2010.

Recommendation 16. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices make certain that funding documents received are approved by the appropriate personnel in accordance with NAVSUPINST 4200.85D, FAR, DoD FMR, NAVCOMPT 2276, and SECNAVINST 5216.5D.

Management response to Recommendation 16. Concur. Adequate controls and oversight have been implemented to ensure that funding documents received are approved by the appropriate personnel.

Navy Audit Service comment on response to Recommendation 16. Actions taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 6 January 2010.

Recommendation 17. Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices require contractors/vendors to provide invoices that identify all products or services delivered, and that all invoices are supported by receiving reports or other Government documentation authorizing payment, as required by the FAR, DFARS, and DoD FMR.

Management response to Recommendation 17. Concur. FISC Sigonella agrees that contracts must require receipt of proper invoices from contractors and the Government must provide proper documentation authorizing payment. FISCSI Detachment Bahrain and Detachment Dubai currently require that all contractors submit proper invoices.

Regarding Government Documentation, FAR 32.905 states All invoice payments, with the exception of interim payments on cost-reimbursement contracts for services, must be supported by a receiving report or other Government documentation authorizing payment (e.g. Government certified voucher). Note, the Government certified voucher is an example used by the FAR, not a requirement. FISCSI Detachment Bahrain and Detachment Dubai satisfy this requirement through Government certification of the contractor-provided invoices, thereby providing documentation. This process fulfills the intent of Government provided documentation outlined within FAR 32.905 as long as the minimum information required at (c) is provided in the documentation. Additionally, the Region (EURAFSWA) Disbursing Officer at the Commercial (Vendor) Bill Pay Office (CBPO) has consistently accepted this form of Government documentation as the basis for contract payment.

Action on this recommendation is considered complete for reporting purposes.

Navy Audit Service comment on response to Recommendation 17. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. We consider this recommendation closed as of 27 April 2010. However a followup audit should be performed at a later date to ensure that the proposed actions taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain and FISCSI Detachment Dubai have been implemented and is working.

Recommendation 18. Require the Commanding Officer, FISCSI Sigonella to improve controls and oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices separate among different individuals the responsibilities for the tasks of initiating, authorizing, processing, recording, and reviewing transactions in accordance with DoD FMR and NAVSUPINST 4200.85D.

Management response to Recommendation 18. Concur. Separation of duties is extremely important for contract cycle integrity. The Draft Audit Report, N2008-NAA000-0123, only cited one incident at which a lack of segregation occurred between two duties, contracting officer and contract invoice certification. FISCSI does not concur that one instance is indicative of a potential systemic problem. Additionally, training has been conducted on the topic and the Commercial (Vendor) Bill Pay Office (CBPO) serves as a check and balance.

On 4 December 2008, the CBPO provided detailed certifying officer training.

In February 2009, the local Commercial Bill Pay Function was consolidated and moved to Naples, Italy and currently resides with the Region (EURAFSWA). The CBPO reviews all invoices and double checks to ensure that the contracting officers and the certifying officer are two different individuals.

Action on this recommendation is considered complete for reporting purposes.

Navy Audit Service comment on response to Recommendation 18. Based on the documentation provided to us on 25 May 2010, the certifying officer training that the CBPO provided on 4 December 2008, addressed “Invoice Payment Processing” but did not address separation of duties.

However, having the CBPO serve as a check and balance to ensure separation of duties between the contracting officer and the certifying officer meets the intent of the recommendation. A followup audit may be performed at a later date to ensure that the actions reportedly taken by NAVSUP, FISCSI Detachments Bahrain and Dubai, and the CBPO have been implemented and are working as intended. We consider this recommendation closed as of February 2009.

Recommendation 19. Require the Commanding Officer, FISCSI Sigonella to include contract award, administration, and oversight as an assessable unit in its Manager's Internal Control Program and perform regular management control reviews of FISCSI Detachments Bahrain and Dubai contracting offices to ensure problems and internal control weaknesses identified in this report are corrected.

Management response to Recommendation 19. Concur. Contract award, administration and oversight have been included as assessable units under FISCSI's Manager's Internal Control Program.

Navy Audit Service comment on response to Recommendation 19. Action taken by NAVSUP, COMFISCSI, FISCSI Detachment Bahrain, and FISCSI Detachment Dubai meet the intent of the recommendation. Please see the management response letter in the Appendix for details of actions taken. We consider this recommendation closed as of 30 October 2009.

Section B:

Status of Recommendations

Recommendations							
Finding ¹⁴	Rec. No.	Page No.	Subject	Status ¹⁵	Action Command	Target or Actual Completion Date	Interim Target Completion Date ¹⁶
1	1	25	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices maintain complete contract files in accordance with the FAR, DoD, and DON acquisition guidance, and complete, properly file, and maintain all key contract documents.	C	Naval Supply Systems Command (NAVSUP)	3/25/2010	
1	2	25	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices ensure contracts entered into on behalf of the Government are awarded by the appropriate contracting office and that the appropriate procurement authority exists before awarding contracts for construction or real property in accordance with NAVSUPINST 4200.85D.	C	NAVSUP	3/22/2010	
1	3	26	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices comply with FAR 1.602, "Contracting Officers," FAR 1.602-1, "Authority," and FAR 1.602-2, "Responsibilities," when awarding and monitoring contract actions.	C	NAVSUP	7/8/2008	

¹⁴ / + = Indicates repeat finding.

¹⁵ / O = Recommendation is open with agreed-to corrective actions; C = Recommendation is closed with all action completed; U = Recommendation is undecided with resolution efforts in progress.

¹⁶ If applicable.

Recommendations							
Finding ¹⁴	Rec. No.	Page No.	Subject	Status ¹⁵	Action Command	Target or Actual Completion Date	Interim Target Completion Date ¹⁶
1	4	26	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices process the unauthorized commitment made by unwarranted Government personnel on the USNS <i>Catawba</i> in FYs 2006 through 2007, using the ratification authority of NAVSUPINST 4200.81D, and FAR 1.602-3(b)(1), (2), and (5)(c), "Ratification of Unauthorized Commitments."	C	NAVSUP	4/29/2010	
1	5	27	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices obtain legal counsel review of all ratifications of unauthorized commitments in accordance with NAVSUPINST 4200.81D.	C	NAVSUP	9/8/2009	
1	6	27	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices close out contracts timely, and in accordance with the FAR, and that unneeded funds are deobligated and returned to the requesting offices.	C	NAVSUP	11/30/2009	
1	7	27	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices conduct more thorough reviews of data input(s) to the FPDS-NG in accordance with the FAR.	C	NAVSUP	3/18/2010	
1	8	28	Improve controls and oversight over the NAVSUP QASA program to ensure the program meets the intent of FAR 4.602, FAR 4.8, and DFARS 204.8.	C	NAVSUP	7/9/2009	

Recommendations							
Finding ¹⁴	Rec. No.	Page No.	Subject	Status ¹⁵	Action Command	Target or Actual Completion Date	Interim Target Completion Date ¹⁶
1	9	28	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices obtain management approval for assignment of all DUNS/CAGE numbers, and to track and monitor the use of default DUNS numbers. If a local contractor/vendor does not have a DUNS/CAGE number, assign the contractor a number.	C	NAVSUP	4/7/2009	
1	10	30	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices make certain that the Fleet Liaison Officer and the contracting officer review every port visit to assure compliance with Naval Regional Contracting Center Instruction 4330.	C	NAVSUP	11/27/2009	
1	11	31	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices establish effective communications between the FISCSI Contracting Office and U.S. Navy ships to prevent future occurrences of unauthorized commitments.	C	NAVSUP	2/26/2010	
1	12	31	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices perform effective source selection, to include market research, technical evaluation, promoting competition, and preparing IGEs to determine that the proposed price and services are fair and reasonable in accordance with the FAR, DoD, and DON acquisition regulations.	C	NAVSUP	10/1/2009	

Recommendations							
Finding ¹⁴	Rec. No.	Page No.	Subject	Status ¹⁵	Action Command	Target or Actual Completion Date	Interim Target Completion Date ¹⁶
1	13	32	Require the Commanding Officer, FISCSI Sigonella to improve controls and oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices develop acquisition plans for procurements in accordance with the FAR and DON Policy Letter 4200 210/7042, and engage customers early in the development of the acquisition to allow sufficient advance notice of contracting requirements to facilitate acquisition planning.	C	NAVSUP	7/8/2008	
1	14	33	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices consistently perform legal reviews of contract actions greater than \$100,000, as required by FISCSI Instruction 5801.1.	C	NAVSUP	7/8/2008	
1	15	33	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices include funding documents in the contract files and deobligate unneeded funds in accordance with PGI 243.171.	C	NAVSUP	3/25/2010	
1	16	34	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices make certain that funding documents received are approved by the appropriate personnel in accordance with NAVSUPINST 4200.85D, FAR, DoD FMR, NAVCOMPT 2276, and SECNAVINST 5216.5D.	C	NAVSUP	1/6/2010	
1	17	34	Require the Commanding Officer, FISCSI Sigonella to establish controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices require contractors/vendors to provide invoices that identify all products or services delivered, and that all invoices are supported by receiving reports or other Government documentation authorizing payment, as required by the FAR, DFARS, and DoD FMR.	C	NAVSUP	4/27/2010	

Recommendations							
Finding ¹⁴	Rec. No.	Page No.	Subject	Status ¹⁵	Action Command	Target or Actual Completion Date	Interim Target Completion Date ¹⁶
1	18	35	Require the Commanding Officer, FISCSI Sigonella to improve controls and oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices separate among different individuals the responsibilities for the tasks of initiating, authorizing, processing, recording, and reviewing transactions in accordance with DoD FMR and NAVSUPINST 4200.85D.	C	NAVSUP	2/26/2009	
1	19	36	Require the Commanding Officer, FISCSI Sigonella to include contract award, administration, and oversight as an assessable unit in its Manager's Internal Control Program and perform regular management control reviews of FISCSI Detachments Bahrain and Dubai contracting offices to ensure problems and internal control weaknesses identified in this report are corrected.	C	NAVSUP	10/30/2009	

Exhibit A:**Summary of Contracts Actions Audited**

Fleet and Industrial Supply Center Sigonella Detachment - Bahrain		Fleet and Industrial Supply Center Sigonella Detachment - Dubai	
Contract Action Number	Award Amount	Contract Action Number	Award Amount
N4940007GA600, 7001	\$4,295,155	N4940007P0041#^+	\$62,500
N4940005DA008, 2017*	\$1,961,348	N4940007P0139 #	\$8,500
N4940005DA008, 2009 Mod 4 *	\$1,413,120	N4940007P0145 #	\$82,000
N4940005DA008, 2009 Mod 7 *	\$1,201,009	N4940007P0152#^	\$12,055
N4940005DA008, 2009 Mod 10 *	\$4,934,591	N4940007P0186 #	\$99,502
N4940005DA008, 2009 Mod 11 *	\$1,010,739	N4940007P0250 #^	\$151,234
N4940005DA008, 2009 Mod 13 *	\$963,850	N4940007P0269 #+	\$189,000
N4940005DA008, 7001*	\$667,374	N4940007P0270 #	\$198,450
N4940007GA501, 7081	\$860,508	N4940007P0378 ^	\$999
N4940007GA501, 7032	\$904,171	N49400-05-A-5006	\$906,353
N4940007GA501, 7070	\$500,000	N49400-06-C-0015	\$601,644
N4940007CG009 #^	\$582,280	N49400-06-C-0017	\$964,603
N4940007CG005 #	\$2,037,351	N49400-06-P-0413 #+	\$88,604
N4940003DA043, 0010+	\$80,265	N49400-06-P-0408+	\$1,380
N6817199DA001, 0415+	\$93,178	N49400-06-C-0016	\$729,863
N4940007PG042+	\$13,088	N49400-06-P-0269#	\$3,343
N4940007CG008 #^	\$295,999		
N4940007F0118	\$1,023,537		
N4940007PB168 #^	\$8,000		
N4940006F0079	\$18,338		
N4940006PB247 #	\$8,000		
N4940006PB267	\$94,544		
N4940004ME326, P0002, P0003	\$708,000		
<u>Total Bahrain Contract Actions</u>	<u>23</u>	<u>Total Dubai Contract Actions</u>	<u>16</u>
Total Bahrain	\$23,674,445	Total Dubai	\$4,100,030
Total Bahrain and Dubai (39 contract actions)		\$27,774,475	

Legend: 1) *Seven contract actions awarded under the husbanding contract = \$12,152,030

2) #Fifteen Sole source contract actions = \$3,826,818 - (3 of the 15 sole source contract actions, totaling \$340,104, are special contract actions)

3) +Seven Special contract actions = \$528,015 - (Three of the seven special contract actions, totaling \$340,104, are sole source contract actions)

4) ^Seven contract actions with Dummy Default numbers = \$1,113,067

Exhibit B:**Contract Action Files – Summary of Key Contract Documents****Table 1**

	Contract Administration		Management Oversight		
			Validity of Requirements		
	(1) Contract Files	(2) Quality Assurance Surveillance Plan	(3) FISCSI Warranted Contract Authority	(4) Procurement and Approval	(5) Authorized Commitments (Ratification Letter)
Bahrain					
N4940007GA600, 7001	N	N/A			
N4940005DA008, 2017	N	N/A			
N4940005DA008, 2009 Mod 4	N	N/A			
N4940005DA008, 2009 Mod 7	N	N/A			
N4940005DA008, 2009 Mod 10	N	N/A			
N4940005DA008, 2009 Mod 11	N	N/A			
N4940005DA008, 2009 Mod 13	N	N/A			
N4940005DA008, 7001	N	N/A			
N4940007GA501, 7081	N	N/A			
N49400007GA501 7070	N	N/A			
N49400007GA501 7032	N	N/A			
N4940007CG005	N	N/A			
N4940007CG009	N	N/A		N	
N4940003DA043, 0010	N	N/A			
N6817199DA001, 0415	N	N/A			
N4940007PG042	N	N/A			N
N4940007CG008	N	N/A		N	
N4940007F0118	N	N/A			
N4940007PB168	N	N/A			
N4940006F0079	N	N/A			
Total contract actions (20)	N=20	N/A =20	N=0	N=2	N=1

Legend: N (No) = Activity could not provide documentation.

IS = Documentation was present but not sufficient. If the box is blank – means that the document was in the contract files or document was presented to Naval Audit Service.

N/A – Not Applicable.

Table 1 - continued

	Contract Administration		Management Oversight		
	(1)	(2)	Validity of Requirements		
	Contract Files	Quality Assurance Surveillance Plan	FISCSI Warranted Contract Authority	Procurement and Approval	Authorized Commitments (Ratification Letter)
N4940006PB247	N	N/A			
N4940006PB267	N	N/A	N		
N4940004ME326, P0002 and P0003	N	N/A	N		
Dubai					
N4940006P0269	N	N/A			
N4940007P0041	N	N/A			
N4940007P0139	N	N/A			
N4940007P0145	N	N/A	N		
N4940007P0152	N	N/A			
N4940007P0186	N				
N4940007P0250	N	N/A			
N4940007P0269	N				
N4940007P0270	N	N/A			
N4940007P0378	N	N/A			
N4940005A5006	N	N/A			
N4940006C0015	N	N/A			
N4940006C0017	N	N/A			
N4940006P0413	N	N/A			
N4940006P0408		N/A			
N4940006C0016	N	N/A			
Total this Page - Contract Actions (19)	N=18	N/A = 17	N=3	N/A=0	N/A=0
Total from Page 28 – Contract Actions (20)	N=20	N/A = 20	N=0	N=2	N=1
Grand total Contract Actions – (39)	N=38	N/A=37	N=3	N=2	N=1

Legend: N (No) = Activity could not provide documentation.

IS = Documentation was present but not sufficient. If the box is blank – means that the document was in the contract files or document was presented to Naval Audit Service.

N/A – Not Applicable.

Table 2

Contract Action Files	Source Selection Process									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	J&A	IGE	Technical Evaluation	Document to Support Market Research	Document to Support Competition	Document to Support Price Reasonableness	Statement of Work	Contract Termination Clause	Legal Reviews	Acquisition Plan
Bahrain										
N4940007GA600, 7001				IS	IS					
N4940005DA008, 2017										
N4940005DA008, 2009 Mod 4										
N4940005DA008, 2009 Mod 7										
N4940005DA008, 2009 Mod 10										
N4940005DA008, 2009 Mod 11										
N4940005DA008, 2009 Mod 13										
N4940005DA008, 7001										
N4940007GA501, 7081				IS	IS					
N4940007GA501 7070				IS	IS					
N4940007GA501 7032				IS	IS					
N4940007CG009	IS	IS	IS	IS	IS	IS				
N4940007CG005	N			N	N					
N4940003DA043, 0010	N/A	N/A	N/A	N/A	N/A	N/A		N/A	N/A	N/A
N6817199DA001, 0415	N/A	N/A	N/A	N/A	N/A	N/A		N/A		N/A
N4940007PG042	N/A	N/A	N/A	N/A	N/A	N/A				N/A
N4940007CG008	N	IS	IS	N	N	IS				
N4940007F0118										
N4940007PB168	IS			IS	IS					N/A
N4940004ME326, P0001 and P0003				IS	IS					
Total this Page - Contract Actions (20)	N=2; IS=2 N/A=3	IS=2; N/A=3	IS=2; N/A=3	N=2 N/A = 3 IS=7	N=2;N/A=3 IS =7	IS= 2 N/A= 3	N=0	N/A=2	N=5 N/A=5	N/A=4

Legend: N (No) = Activity could not provide documentation.

IS = Documentation was present but not sufficient. If the box is blank – means that the document was in the contract files or document was presented to Naval Audit Service.

N/A – Not Applicable.

Table 2 – continued

	Source Selection Process - continued									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Contract Action Files	J&A	IGE	Technical Evaluation	Document to Support Market Research	Document to Support Competition	Document to Support Price Reasonableness	Statement of Work	Contract Termination Clause	Legal Reviews	Acquisition Plan
N4940006F0079										N/A
4940006PB247	IS			IS	IS					N/A
N4940006PB267				IS	IS					N/A
Dubai										
N4940006P0269	N	N	N	N	N	N				N/A
N4940007P0269		N/A	N/A	N/A	N/A	N/A				
N4940007P0186	IS	N	IS	IS	IS	IS				N/A
N4940007P0041		N/A	N/A	N/A	N/A	N/A				N/A
N4940007P0139	IS			N	N					N/A
N4940007P0145	IS			IS	IS					N/A
N4940007P0152	IS	N	N	N/A	N	N				N/A
N4940007P0250	IS	N	IS	IS	IS	IS				N/A*
N4940007P0378										N/A
N4940005A5006		N	N	IS	IS	N				N
N4940006C0015		IS		IS		IS				N/A*
N4940006C0017		IS		IS		IS				N/A*

N4940006P0413		N/A	N/A	N/A	N/A	N/A				N/A
N4940006P0408	N/A	N/A	N/A	N/A	N/A	N/A		N/A		N/A
N4940006C0016		IS		IS		IS				N/A*
N4940007P0270	IS	N	N	IS	IS	N				N/A*
Total (this Page) Contract Actions (19)	N=1 IS=7 N/A =1	N=6 N/A=4 IS = 3	N=4 N/A=4 IS=2	N=3 IS=10 N/A = 4	N=3, IS=7, N/A=4	N=4 IS=5 N/A=4	N=0	N/A = 1	N=8 N/A=11	N=1 N/A=17
Total from Page #30 -Contract Actions (20)	N=2, IS=2 N/A=3	IS=2; N/A=3	IS=2; N/A=3	N=2 N/A = 3 IS=7	N=2; N/A=3 IS =7	IS= 2 N/A= 3	N=0	N/A=2	N/A=5 N=5	N/A=4
Grand total Contract Actions – (39)	N=3 IS=9 N/A=4	N=6 IS=5 N/A=7	N=4, IS=4 N/A=7	N=5, IS=17, N/A=7	N=5, N/A=7 IS=14	N=4, IS=7, N/A=7	N=0	N/A =3	N=13 N/A=16	N=1 N/A=21

Legend: N (No) = Activity could not provide documentation.

IS = Documentation was present but not sufficient. If the box is blank – means that the document was in the contract files or document was presented to Naval Audit Service.

N/A – Not Applicable.

Table 3

	Funding Process			Payment Documentation Process		
	(1)	(2)	(3)	(4)	(5)	(6)
Contract Action Files	Funding Document (NAVCOMPT 2276, MIPR)	Funding Deobligation/ Modification Documents	Binding Agreement	Vendor Invoices	Vendor Invoices- Partially Missing	Material Inspection & Receiving Report (DD 250) or Equivalent
Bahrain						
N4940007GA600, 7001						N
N4940005DA008, 2017		N				N
N4940005DA008, 2009 Mod 4						N
N4940005DA008, 2009 Mod 7						N
N4940005DA008, 2009 Mod 10						N
N4940005DA008, 2009 Mod 11						N
N4940005DA008, 2009 Mod 13						N
N4940005DA008, 7001						N

N4940007GA501, 7081		N				
N49400007GA501 7070						
N49400007GA501 7032						
N4940007CG009	N	N		N		N
N4940007CG005			N			N
N4940003DA043, 0010		N				N
N6817199DA001, 0415		N				N
N4940007PG042	N					N
N4940007CG008						N
N4940007F0118		N				
N4940007PB168						N
Total this Page Contract Actions (19)	N=2	N=6	N=1	N=1	N=0	N=15

Legend: N (No) = Activity could not provide documentation.
 IS = Documentation was present but not sufficient. If the box is blank – means that the document was in the contract files or document was presented to Naval Audit Service.
 N/A – Not Applicable.

Table 3 continued

Legend: N (No) = Activity could not provide documentation.

Contract Action Files	Funding Process (continued)			Payment Documentation Process (continued)		
	(1) Funding Document (NAVCOMPT 2276, MIPR)	(2) Funding Deobligation/ Modification Document	(3) Binding Agreement	(4) Vendor Invoices	(5) Vendor Invoices- Partially Missing	(6) Material Inspection & Receiving Report (DD 250) or Equivalent
N4940006F0079						N
N4940006PB247						N
N4940006PB267						N
N4940004ME326, P0002 and P0003						N
Dubai						
N4940006P0269	N			N		N
N4940007P0041					N	N
N4940007P0139						N
N4940007P0145						N
N4940007P0152						N
N4940007P0186						
N4940007P0250						N
N4940007P0269						N
N4940007P0270						N
N4940007P0378						N
N4940005A5006						N
N4940006C0015						N
N4940006C0017						N
N4940006P0413				N		N
N4940006P0408						
N4940006C0016						N
Total (This Page) Contract Actions (20)	N=1	N=0	N=0	N=2	N=1	N=18
Total from Pg #32 – Contract Actions(19)	N=2	N=6	N=1	N=1	N=0	N=15
Grand total Contract Actions (39)	N=3	N=6	N=1	N=3	N=1	N=33

IS = Documentation was present but not sufficient. If the box is blank – means that the document was in the contract files or document was presented to Naval Audit Service.

N/A – Not Applicable.

Exhibit C:

Scope and Methodology

We conducted this performance audit from 7 January 2008 to 13 January 2010 in accordance with Generally Accepted Government Auditing Standards (GAGAS) at the following activities:

- Fleet and Industrial Supply Center Sigonella (FISCSI) – Detachment Bahrain
- FISCSI – Detachment Dubai

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based on our research and coordination with other audit agencies, we found no previous audits pertaining to contracts awarded and administered by the FISCSI Detachments Bahrain and Dubai. Therefore, no followup was necessary.

We obtained contract data for Fiscal Year (FY) 2003 through FY 2007 directly from the FISCSI Detachments Bahrain and Dubai contracting offices and also from the Federal Procurement Data System-Next Generation (FPDS-NG) through the Naval Audit Service Data Mining Division. We performed a comparative analysis of the contract data and found differences which are discussed under “Data Integrity in the FPDS-NG” in the Management Oversight section of the report. We established a total universe comprised of 6,441 contract actions awarded during FY 2006 through FY 2007 (the universe included contract actions awarded under the husbanding contract (contract action N49400-05-D-A008, valued at \$50.2 million¹⁷). The FY 2006 portion of the universe consisted of 3,420 contract actions, valued at \$58.8 million; and the FY 2007 portion of the universe consisted of 3,021 contract actions, valued at \$66.1 million.

In addition to the universe, we also reviewed the documentation provided by the FISCSI Detachment Bahrain contracting office for the husbanding contract (N49400-05-D-A008), valued at \$50.2 million. The husbanding contract was awarded by the FISCSI Detachment Bahrain office on 8 June 2005.

We applied the EZ-Quant Statistical Analysis Software (EZ-Quant) and judgmental sampling to the total universe of 6,441 contract actions, to assist us in determining the number of contract actions to include in our sample selection for audit. The EZ-Quant determined that we needed 32 contracts actions; however, we increased our sample by

¹⁷ The husbanding contract (N49400-05-D-A008) was awarded by the FISCSI Detachment Bahrain office on 8 June 2005.

judgmentally selecting 39 contract actions, totaling \$27.8 million,¹⁸ on which to perform an in-depth audit. To select the 39 contract actions to perform an in-depth audit, we used the following criteria: (1) high-dollar-value obligations (orders more than \$200,000), (2) orders awarded at the end of FY 2006 and FY 2007 (e.g., during September), and (3) unusual types of goods or services procured.

We evaluated internal controls and reviewed compliance with applicable laws and regulations. We identified and reviewed relevant guidance from the Federal Acquisition Regulation, Defense Federal Acquisition Regulation Supplement, U.S. Code, Department of Defense Financial Management Regulation, and Secretary of the Navy and Naval Supply Systems Command Instructions.

During the audit, we met with and/or interviewed Naval Forces Central Command Comptroller and Human Resources Director. We also met with and interviewed the FISCSI Detachments Bahrain and Dubai personnel involved in the contract award, administration and management, to gain an understanding of the control environment, hiring practices (including Foreign Nationals), what security procedures were in place and had been implemented, procurement and funding process (including management oversight and the ethical environment).

We visited USS *Port Royal* (CG 73) at the Naval Support Activity Bahrain port to observe how ships receive and unload supplies. As part of our analysis, we performed reviews of completeness and sufficiency of the documentation in areas of contract administration, management oversight, the source selection process, the funding process and the ethics program. More specifically, we reviewed the bona fide need/requirement for goods and services and verified documentation of the appropriate procurement approvals and authorizations, verified the documentation of market research, price reasonableness, sufficient competition, management oversight, separation of duties and verified the proper use of funding.

¹⁸Includes seven contract actions, valued at \$12.1 million, from the husbanding contract N49400-05-D-A008.

Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) and Recommendations 1 through 21 of this report address issues related to internal controls over acquisitions. In our opinion, the weaknesses noted in this report may warrant reporting in the Auditor General's annual FMFIA memorandum identifying management control weaknesses to the Secretary of the Navy. The Naval Audit Service has been conducting a series of audits on acquisition checks and balances at multiple commands which will add to the scope of this issue. This series of audits has identified similar weaknesses to those found in this audit with contract administration and additional weaknesses found at other locations. In our judgment, together, these audits show that insufficient controls over acquisition checks and balances is a systemic weakness that may warrant reporting in the Auditor General's annual FMFIA memorandum to the Secretary of the Navy.

Exhibit D:**Table of Acronyms and Definitions**

Acronym	Definition
ADA	Antideficiency Act
COMFISCS	Commander, Fleet and Industrial Supply Centers
CRAFT	Cost Reporting Analysis and Forecasting Tool
D&F	Determination and Finding
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
DoDIG	Department of Defense Office of Inspector General
DOD FMR	Department of Defense Financial Management Regulation
DON	Department of the Navy
DUNS	Data Universal Numbering System
FAC	Federal Acquisition Circular
FAR	Federal Acquisition Regulation
FISCSI	Fleet and Industrial Supply Center Sigonella
FLO	Fleet Liaison Officer
FPDS-NG	Federal Procurement Data System – Next Generation
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
IGE	Independent Government Estimates
J&A	Justification and Approval
CO	Contracting Officer
MEU	Marine Expeditionary Unit
MOA	Memorandum of Agreement
NAICS	North American Industry Classification System
NAVCENT	Naval Forces Central Command
NAVFAC	Naval Facilities Engineering Command
NAVSUP	Naval Supply Systems Command
NAVSUPINST	Naval Supply System Command Instruction
NRCC	Naval Regional Contracting Center
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PPMAP	Procurement Performance Measurement & Assessment Program
PSC	Product Service Code
QASP	Quality Assurance Surveillance Plan
SECNAVINST	Secretary of the Navy Instruction
SOW	Statement of Work

Exhibit E:

Pertinent Guidance

Defense Federal Acquisition Regulation Supplement (DFARS) 246.370(1)(b)(7), “Material Inspection and Receiving Report” states that when contract administration is retained by the contracting office, the clause at 252.246-7000, Material Inspection and Receiving Report, is not required for contracts awarded using simplified acquisition procedures. It further states that for contracts in overseas areas when the preparation and distribution of the DD Form 250, Material Inspection and Receiving Report, by the contractor would not be practicable. In these cases, arrange for the contractor to provide the information necessary for the contracting office to prepare the DD Form 250.

DFARS 246.601, “Material Inspection and Receiving Report” directs users to see Appendix F, Material Inspection and Receiving Report, for procedures and instructions for the use, preparation, and distribution of the Material Inspection and Receiving Report (DD Form 250 series); and (2) Supplier's commercial shipping/packing lists used to evidence Government contract quality assurance.

Department of Defense Financial Management Regulation (DoD FMR) -Volume 14, Chapter 1, section 010204 and section 010205(J), states that all delegations or redelegations of authority or functions shall be made in writing. Further, section 010205(J), states that DoD officials, including commanders and supervisors to whom funds are entrusted or apportionments or administrative subdivisions of funds are issued, shall issue and maintain appropriate delegation of authority.

DoD FMR -Volume 11A, Chapter 18, section 180201, states that Non-Economy Act orders in excess of the simplified acquisition threshold shall comply with Federal Acquisition Regulation (FAR) Part 7, “Acquisition Planning,” and DoD Components’ procedures for the “Proper Use of Non-DoD Contracts.”

Federal Acquisition Regulation (FAR) 1.602-3(a)(b)(1)(2), “Ratification of Unauthorized Commitments,” states that ratification as used in this subsection means the act of approving an unauthorized commitment by an official who has the authority to do so. Unauthorized commitment means an agreement that is not binding solely because the Government representative who made it lacked the authority to enter into that agreement on behalf of the Government. Further, FAR 1.6 states that agencies should take positive action to preclude, to the maximum extent possible, the need for ratification actions. Although procedures are provided in this section for use in those cases where the ratification of an unauthorized commitment is necessary, these procedures may not be used in a manner that encourages such commitments being made by Government personnel. Subject to the limitations in paragraph (c) of this subsection, the head of the

contracting activity, unless a higher level official is designated by the agency, may ratify an unauthorized commitment.

FAR 4.602(d), “Federal Procurement Data System,” states the contracting officer must identify and report (if it is not pre-populated by the Central Contractor Registration database) a Contractor Identification Number for each successful offeror. A Data Universal Numbering System (DUNS) number, which is a nine-digit number assigned by Dun and Bradstreet Information Services to an establishment, is the Contractor Identification Number for Federal contractors. The DUNS number reported must identify the successful offeror’s name and address exactly as stated in the offer and resultant contract. The contracting officer must ask the offeror to provide its DUNS number by using either the provision prescribed in paragraph (a) of 4.603 or the FAR clause prescribed at 4.1104. If the successful offeror does not provide its number, the contracting officer must contact the offeror and assist them in obtaining the DUNS number.

FAR 4.801(a)(b), “Government Contract Files – General,” states that the head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions. The documentation in the files (see 4.803) shall be sufficient to constitute a complete history of the transaction for the purpose of: (1) Providing a complete background as a basis for informed decisions at each step in the acquisition process; (2) supporting actions taken; (3) providing information for reviews and investigations; and (4) furnishing essential facts in the event of litigation or congressional inquiries.

FAR 4.803(a)(10)(ii), “Contents of Contract Files,” states that the contracting office contract files normally contained a copy of: (1) each offer or quotation, (2) the related abstract, and (3) the records of determinations concerning late offers or quotations. Unsuccessful offers or quotations may be maintained separately, if cross-referenced to the contract file. The only portions of the unsuccessful offer or quotation that need to be retained are the technical and management proposals.

FAR 4.803(b)(1)(2)(15),(19), “Contract Administration Office Contract File,” states that examples of the records normally contained, if applicable, in contract files, include a copy of the contract and all modifications, together with official record copies of supporting documents executed by the contract administration office. In addition, any document modifying the normal assignment of contract administration functions and responsibility to include quality assurance records. The FAR further states that any additional documents on which action was taken or that reflect actions by the contract administration office pertinent to the contract.

FAR 4.804-2(a)(b)(c), “Closeout of the Contracting Office Files if Another Office Administers the Contract,” states that contract files for contracts using simplified

acquisition procedures should be considered closed when the contracting officer receives evidence of receipt of property and final payment, unless otherwise specified by agency regulation. All other contract files are required to be closed as soon as practicable after the contracting officer receives a contract completion statement from the contract administration office. The contracting officer must make certain that all required contractual actions have been completed and must prepare a statement to that effect. This statement is authority to close the contract file and shall be made a part of the official contract file.

FAR 4.804-5(c), “Procedures for Closing-Out Contract Files,” states that, when the statement is completed, the contracting officer must make certain that the signed original is placed in the contracting office contract file (or forwarded to the contracting office for placement in the files if the contract administration office is different from the contracting office); and a signed copy is placed in the appropriate contract administration file if administration is performed by a contract administration office.

FAR Subpart 6.301(b)(d), “Other Than Full and Open Competition – Policy” states that the 41 U.S.C. 253(c) and 10 U.S.C. 2304(c) each authorize, under certain conditions, contracting without providing for full and open competition. The DoD, Coast Guard, and National Aeronautics and Space Administration are subject to 10 U.S.C. 2304(c). Other executive agencies are subject to 41 U.S.C. 253(c). Contracting without providing for full and open competition or full and open competition after exclusion of sources is a violation of statute, unless permitted by one of the exceptions in 6.302. Each contract awarded without providing for full and open competition shall contain a reference to the specific authority under which it was so awarded. Contracting officers shall use the U.S. Code citation applicable to their agency (see 6.302). When not providing for full and open competition, the contracting officer shall solicit offers from as many potential sources as is practicable under the circumstances.

FAR 7.102(a)(1)(2), “Acquisition Planning,” states that agencies shall perform acquisition planning and conduct market research (see Part 10) for all acquisitions in order to promote and provide for: (1) acquisition of commercial items or, to the extent that commercial items suitable to meet the agency’s needs are not available, nondevelopmental items, to the maximum extent practicable (10 U.S.C. 2377 and 41 U.S.C. 251, et seq.); and (2) full and open competition (see Part 6) or, when full and open competition is not required in accordance with Part 6, to obtain competition to the maximum extent practicable, with due regard to the nature of the supplies or services to be acquired (10 U.S.C. 2301(a)(5) and 41 U.S.C. 253a(a)(1)).

FAR 7.105(a)(4) and (b)(1), “Contents of Written Acquisition Plans,” states that in order to facilitate attainment of the acquisition objectives, the plan must identify those milestones at which decisions should be made. The plan must address all the technical, business, management, and other significant considerations that will control the

acquisition. The specific content of plans will vary, depending on the nature, circumstances, and stage of the acquisition. In preparing the plan, the planner must follow the applicable instructions in paragraphs (a) and (b) of this section, together with the agency's implementing procedures. Acquisition plans for service contracts or orders must describe the strategies for implementing performance-based acquisition methods or must provide rationale for not using those methods. In addition, per FAR 7.105(a)(4), acquisition plans should specify the required capabilities or performance characteristics of the supplies or the performance standards of the services being acquired and state how they are related to the need. Further FAR 7.105(b)(1) states that you should indicate the prospective sources of supplies or services that can meet the need. Consider required sources of supplies or services (see Part 8) and sources identifiable through databases including the Government wide database of contracts and other procurements instruments intended for use by multiple agencies available at www.contractdirectory.gov.

FAR 8.405-1(a)(b)(c)(1)(2), "Ordering Procedures for Supplies and Services not Requiring a Statement of Work," states that Ordering activities shall use the procedures of this subsection when ordering supplies and services that are listed in the schedules contracts at a fixed price for the performance of a specific task, where a statement of work is not required (e.g., installation, maintenance, and repair). In addition for orders at or below the micro-purchase threshold, the ordering activities may place orders at, or below, the micro-purchase threshold with any Federal Supply Schedule contractor that can meet the agency's needs. Although not required to solicit from a specific number of schedule contractors, ordering activities should attempt to distribute orders among contractors. For orders exceeding the micro-purchase threshold but not exceeding the maximum order threshold, the ordering activities shall place orders with the schedule contractor that can provide the supply or service that represents the best value. Before placing an order, an ordering activity shall consider reasonably available information about the supply or service offered under the Multiple Award Schedule contracts by surveying at least three schedule contractors through the GSA Advantage! on-line shopping service, or by reviewing the catalogs or pricelists of at least three schedule contractors (see 8.405-5), or when an order contains brand name specifications, the contracting officer shall post the Request for Quote (RFQ) along with the justification or documentation as required by 8.405-6.

FAR 8.405-2(c)(1)(2)(ii), "Ordering Procedures for Services Requiring a Statement of Work " states that the ordering activity must provide the Request for Quotation (RFQ), which includes the statement of work and evaluation criteria (e.g., experience and past performance), to schedule contractors that offer services that will meet the agency's needs. The RFQ may be posted to GSA's electronic RFQ system, e-Buy (see 8.402(d)). It further states that the ordering activities may place orders at, or below, the micro-purchase threshold with any Federal Supply Schedule contractor that can meet the agency's needs. The ordering activity should attempt to distribute orders among contractors. However for orders exceeding the micro-purchase threshold, but not

exceeding the maximum order threshold, the ordering activity shall provide the RFQ (including the statement of work and evaluation criteria) to at least three schedule contractors that offer services that will meet the agency's needs.

FAR 8.405-2(d)(e)(1)(2) Ordering Procedures for Services Requiring a Statement of Work,” states that the ordering activity shall evaluate all responses received using the evaluation criteria provided to the schedule contractors. The ordering activity is responsible for considering the level of effort and the mix of labor proposed to perform a specific task being ordered, and for determining that the total price is reasonable. The ordering activity should place the order, or establish the BPA, with the schedule contractor that represents the best value (see 8.404(d)). After award, ordering activities should provide timely notification to unsuccessful offerors. If an unsuccessful offeror requests information on an award that was based on factors other than price alone, a brief explanation of the basis for the award decision shall be provided. It further states that the ordering activity shall document, the schedule contracts considered, noting the contractor from which the service was purchased and a description of the service purchased.

FAR 13.302-4(a)(1)(2), “Termination or Cancellation of Purchase Orders,” states that if a purchase order that has been accepted in writing by the contractor is to be terminated, the contracting officer shall process the termination in accordance with FAR 12.403(d) and 52.212-4(l) for commercial items; or FAR Part 49 or 52.213-4 for other than commercial items.

FAR 13.501(a)(1)(i)(ii), “Special Documentation Requirements,”¹⁹ states acquisitions conducted under simplified acquisition procedures are exempt from the requirements in part 6. However, contracting officers must: (i) conduct sole source acquisitions, as defined in 2.101, under this subpart only if the need to do so is justified in writing and approved at the levels specified in paragraph (a)(2) of this section; and (ii) prepare sole source justifications using the format at 6.303-2, modified to reflect an acquisition under the authority of the test program for commercial items (section 4202 of the Clinger-Cohen Act of 1996) or the authority of the Services Acquisition Reform Act of 2003 (41 U.S.C. 428a).

FAR 13.104(a)(1)(2), “Promoting Competition,” states that the contracting officer must promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government, considering the administrative cost of the purchase. The contracting officer must not solicit quotations based on personal preference; or restrict solicitation to suppliers of well-known and widely distributed makes or brands.

FAR 13.106-3(a)(1)(2)(vi)(vii) “Award and Documentation,” states that before making an award, the contracting officer must determine that the proposed price is fair and

¹⁹ FAC number 2005-10, effective 28 July 2006, and FAC number 2005-21, effective 7 November 2007.

reasonable and whenever possible, the base price reasonableness on competitive quotations or offers. If only one response is received, include a statement of price reasonableness in the contract file. The contracting officer may base the statement on comparison to an independent Government estimate or any other reasonable basis.

FAR 15.404-1(b)(2)(ii)(v), “Price Analysis,” states that price analysis is based on comparison of previously proposed prices and previous Government and commercial contract prices with current proposed prices for the same or similar items, if both the validity of the comparison and the reasonableness of the previous price(s) can be established. In addition FAR 15.404-1(2)(b)(v), states that “Price analysis is based on comparison of proposed prices with independent Government cost estimates

FAR 15.404-1(a)(1) “Proposal Analysis Techniques,” states that the objective of proposal analysis is to ensure that the final agreed-to price is fair and reasonable. The contracting officer is responsible for evaluating the reasonableness of the offered prices. The analytical techniques and procedures may be used, singly or in combination with others, to ensure that the final price is fair and reasonable. The complexity and circumstances of each acquisition should determine the level of detail of the analysis required.

FAR 15.403-1(c)(1)(i)(A), “Prohibition on obtaining cost or pricing data (10 U.S.C. 2306a and 41 U.S.C. 254b),” states the standards for exceptions from cost or pricing data requirements: (1) adequate price competition. A price is based on adequate price competition if two or more responsible offerors, competing independently, submit priced offers that satisfy the Government’s expressed requirement and if the award will be made to the offeror whose proposal represents the best value (see 2.101) where price is a substantial factor in source selection.

FAR 15.404-2(b)(2), “Information to Support Proposal Analysis,” states that audit and field pricing information, whether written or reported telephonically or electronically, shall be made a part of the official contract file.

FAR 15.406-1(a), “Documentation” states that the prenegotiation objectives establish the Government’s initial negotiation position. They assist in the contracting officer’s determination of fair and reasonable prices. They should be based on the results of the contracting officer’s analysis of the offeror’s proposal, taking into consideration all pertinent information including field pricing assistance, audit reports and technical analysis, fact-finding results, independent Government cost estimates, and price histories.

FAR 32.905(c), “Payment and Documentation Process,”²⁰ states that all invoice payments, with the exception of interim payments on cost-reimbursement contracts for

²⁰ FAC number 2005-10, effective 28 July 2006, and FAC number 2005-21, effective 7 November 2007.

services, must be supported by a receiving report or any other Government documentation authorizing payment, i.e., Government certified voucher.

FAR 46.401(a)(1)(2), “Government Contract Quality Assurance,” states Government contract quality assurance shall be performed at such times (including any stage of manufacture or performance of services) and places (including subcontractors’ plants) as may be necessary to determine that the supplies or services conform to contract requirements. Quality assurance surveillance plans should be prepared in conjunction with the preparation of the statement of work. The plans should specify: (1) all work requiring surveillance; and (2) the method of surveillance. **FAR 4.803(b)(15)**, in the “Contract Administration Office Contract File” section, identifies quality assurance records as one of the records normally contained in the contract administration office files.

FAR 46.401(e)(f), “Government Contract Quality Assurance,” states that Government inspection shall be performed by or under the direction or supervision of Government personnel. Government inspection shall be documented on an inspection or receiving report form or commercial shipping document/packing list, under agency procedures (see Subpart 46.6).

FAR Part 49, “Termination of Contracts,” states that this part establishes policies and procedures relating to the complete or partial termination of contracts for the convenience of the Government or for default. It prescribes contract clauses relating to termination and excusable delay and includes instructions for using termination and settlement forms.

FAR Subpart 49.501, “Contract Termination Clauses,” states that this subpart prescribes the principal contract termination clauses. This subpart does not apply to contracts that use the clause at 52.213-4, Terms and Conditions — Simplified Acquisitions (Other Than Commercial Items). For contracts for the acquisition of commercial items, this Part provides administrative guidance which may be followed when it is consistent with the requirements and procedures in the clause at 52.212-4, Contract Terms and Conditions — Commercial Items. In appropriate cases, agencies may authorize the use of special purpose clauses, if consistent with this chapter.

FAR 52.212-4(l)(m), “Contract Terms and Conditions—Commercial Items,” states that: (1) The Government reserves the right to terminate this contract, or any part hereof, for its sole convenience. In the event of such termination, the contractor shall immediately stop all work hereunder and shall immediately cause any and all of its suppliers and subcontractors to cease work. Subject to the terms of this contract, the contractor shall be paid a percentage of the contract price reflecting the percentage of the work performed prior to the notice of termination, plus reasonable charges the contractor can demonstrate to the satisfaction of the Government using its standard record keeping system, have resulted from the termination. The contractor shall not be required to

comply with the cost accounting standards or contract cost principles for this purpose. This paragraph does not give the Government any right to audit the contractor's records. The contractor shall not be paid for any work performed or costs incurred which reasonably could have been avoided. It further states that the Government may terminate this contract, or any part hereof, for cause in the event of any default by the contractor, or if the contractor fails to comply with any contract terms and conditions, or fails to provide the Government, upon request, with adequate assurances of future performance. In the event of termination for cause, the Government shall not be liable to the contractor for any amount for supplies or services not accepted, and the contractor shall be liable to the Government for any and all rights and remedies provided by law. If it is determined that the Government improperly terminated this contract for default, such termination shall be deemed a termination for convenience.

Defense Federal Acquisition Regulation Supplement (DFARS) and Procedures, Guidance and Information (PGI) 243.171, "Obligation or Deobligation of Funds," revised 11 July 2006, requires that the contracting officer include sufficient information in each contract modification to permit the paying office to readily identify the changes for each contract line and subline item, that is, the amount of funds obligated or de-obligated by the instant modification.

Navy Regional Contracting Center (NRCC) Instruction (NRCC Instruction 4330.1), "Port Visit and Husbanding Contract Administration Procedures in the Naval Regional Contracting Center (NRCC), Naples, Italy," dated 23 April 2004, states that "the Executive Officer and the Detachment Officers-in-Charge will assure that their Fleet Liaison Officer (FLO) and contracting officer review every port visit to assure compliance with the procedures" established for the FLO and the contracting officer."

Naval Supply System Command Instruction (NAVSUPINST) 4200.81E, "Navy Field Contracting System Authority and Responsibility," dated 9 November 2007; states that activities authorized to ratify unauthorized commitments shall maintain a record of ratifications action(s). The ratifying official shall, prior to execution of ratification, make certain that the case file includes all required documentation and endorsements. Ratification of an unauthorized commitment must be reviewed by legal counsel and approved as to form and legality. Legal counsel is defined as NAVSUP Headquarters or field counsel.

NAVSUPINST 4200.85D, "DON Simplified Acquisition Procedures," dated 25 April 2005.

"Price Competition," states that effective or adequate price competition exists when quotations are solicited from a reasonable number of sources (at a minimum, at least three sources should be solicited) and at least two quotations that meet the

requirements of the solicitations are received from contractors who independently contended for the award.

“Documentation Requirements” states that contracting officers/buyers should document their research in a manner appropriate to the complexity and dollar value of the procurement. The purchase file should be organized and document all of the market research action taken. Documentation of market research should focus on the decision of commerciality, sole source justification, determination of price reasonableness, etc.

“Separation of Functions” references NMCARS 5203.101-1, which states, “controls shall be established at each activity exercising procurement authority to make certain that there is a three-way separation of functions to prevent fraud, waste and abuse.”

Under Secretary of Defense (Comptroller) Policy Memorandum, “Non-Economy Act Orders,” “Fiscal Policy,” paragraph D.2.a., dated 16 October 2006, states that “funds provided to a performing agency for ordered goods where the funds’ period of availability thereafter has expired shall be deobligated and returned by the performing agency unless the request for goods was made during the period of availability of the funds and the item(s) could not be delivered within the funds period of availability because of delivery, production or manufacturing lead time, or unforeseen delays that are out of the control and not previously contemplated by the contracting parties at the time of contracting.” (DoD FMR Volume 11A, Chapter 18, paragraph 180302, “Deobligation,” was updated in August 2008, accordingly.)

NAVCOMPT Form 2276, “Request for Procurement,” states that written acceptance of this request is required and will be accomplished by completing Block 19 on one copy of this request and returning it to the requesting activity cited in Block 9.

The “DUNS Guide for Government Vendors” points out that the assignment of a DUNS number is free for all entities required to register with the Federal Government by a regulatory agency. This includes federal contractors and prospective Government vendors. The DUNS number is site and division-specific. Therefore, each physical location of an entity (or organization) and each separate division or branch of an organization will have its own DUNS number. Business entities, self-employed individuals who are engaged in a specific business activity, sole-proprietors, partnerships, non-profit and charitable organizations are eligible for a DUNS number.

Appendix:

Management Response from Naval Supply Systems Command



DEPARTMENT OF THE NAVY
NAVAL SUPPLY SYSTEMS COMMAND
8450 CARLISLE PIKE
PO BOX 2080
MECHANICSBURG PA 17055-0781

TELEPHONE NUMBER
COMMERCIAL
AUTOVON
IN REPLY REFER TO:
N2008-0123
SUP 91A
27 Apr 2010

From: Commander, Naval Supply Systems Command
To: Assistant Auditor General for Research, Development,
Acquisition and Logistics Audits

Subj: NAVAL AUDIT SERVICE DRAFT AUDIT REPORT ON DEPARTMENT
OF THE NAVY ACQUISITION CHECKS AND BALANCES AT FLEET
INDUSTRIAL SUPPLY CENTER SIGONELLA NAVAL REGIONAL
CONTRACTING DETACHMENTS BAHRAIN AND DUBAI
(N2008-NAA000-0123)

Ref: (a) NAVAUDSVC memo 7510/N2008-NAA000-0123 of 7 Apr 10

Encl: (1) NAVSUP comments to subject draft audit report

1. Enclosure (1) provides our comments to Finding 1 and
Recommendations 1-19. We have also reviewed reference (a) from
a Freedom of Information Action (FOIA) perspective, and submit
that it does not require the "For Official Use" designation.

2. Our point of contact for this audit is [REDACTED]
[REDACTED] email: [REDACTED] Please call or
e-mail [REDACTED] if you have questions. Thank you for your
support.

[REDACTED]
[REDACTED]
By direction

Copy to:
NAVINGEN
COMFISCS

Visit the NAVSUP Home Page at www.navsup.navy.mil

FOIA (b)(6)

FOIA (b)(6)

NAVAL AUDIT SERVICE REVISED DRAFT AUDIT REPORT ON
DEPARTMENT OF THE NAVY ACQUISITION CHECKS AND BALANCES AT FLEET
AND INDUSTRIAL SUPPLY CENTER SIGONELLA NAVAL REGIONAL
CONTRACTING DETACHMENTS BAHRAIN AND DUBAI

Audit Finding Synopsis

During our audit, we found that the FISCSI Detachments Bahrain and Dubai contracting officials have taken some measures to improve the contracting process and to put in place controls to help detect, deter, and prevent fraud, waste, and abuse. However, we found improvements were needed in the areas of contract administration and management oversight, the source selection process and the funding and payment documentation process. This occurred because internal controls over intra-agency and other procurements needed improvement to provide reasonable assurance that services or products were acquired efficiently and effectively.

The universe for Fiscal Year (FY) 2006 consisted of 3,420 contract actions valued at \$58.8 million. The universe for FY 2007 consisted of 3,021 contract actions valued at \$66.1 million. In addition, FY 2006 and FY 2007 universes also included contract actions that were awarded under the basic husbanding contract (N49400-05-D-A008). The husbanding contract, valued at \$50.2 million, was awarded by the FISCSI Detachment Bahrain office on 08 June 2005. We selected our audit sample from the three combined universes.

We judgmentally selected 39 contract actions, totaling \$27.8 million, on which to perform an in-depth audit. For some of the contract and procurement transactions we audited, we identified problems with contract administration and management oversight, the source selection process, and the funding and payment documentation process.

Further, the FISCSI Detachments Bahrain and Dubai contract officials did not fully comply with the Federal Acquisition Regulation (FAR), Defense Federal Acquisition Regulation Supplement (DFARS), and other DoD and DON acquisition and appropriation guidance for some contract actions. As a result, the FISCSI Detachments Bahrain and Dubai could not consistently demonstrate that their customers received the quality of services or products for which they paid.

ENCLOSURE(1)

NAVSUP comment: Concur with the finding.

We recommend that the Commander, NAVSUP:

Recommendation 1

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices maintain complete contract files in accordance with the FAR, DoD, and DON acquisition guidance, and complete, properly file, and maintain all key contract documents.

NAVSUP comment: Concur. Sufficient policy and guidance has been executed to ensure proper controls and oversight is provided for contract file maintenance.

Actions Taken:

1. Policy Memorandum #07, Subj "REVIEW AND APPROVAL OF ACTIONS BETWEEN \$100,000 AND \$1,000,000" was issued on 8 July 2008 (See Attachment A). This policy is applicable to all contract actions valued between \$100,000 and \$1,000,000. Paragraph 3 states "Upon contract award, contracting officers will submit each contract action subject to this policy memorandum to a level above the Contracting Officer for review of file completeness. This is a new policy specific to FISCSCI, not predicated by a NAVSUP or other instruction with the sole purpose to ensure that additional oversight is provided for contract actions over \$100,000.
2. Policy Memorandum #02, Subj "CONTRACT REVIEW BOARD" (CRB) issued on 10 March 2008, (See Attachment B) requires a review board be conducted for: all Firm Fixed Price actions over \$1,000,000 (for a complete list of all actions requiring a CRB see Attachment B). For actions which require a CRB, the minimal level for chairmanship is the Director of Acquisition. This policy is pursuant to NAVSUPINST 4200.83G.
3. The NAVSUP Contracting Knowledge Site (CKS) (<https://www.navsup.navy.mil/cks>) contains a section titled "Forms." As indicated by the NAVSUP Knowledge Highlight (KM) #10-23 "USE OF CKS CHECKLISTS AND TEMPLATES" dated 10 March 2010 (See Attachment C), the forms and templates on the CKS are prescribed for use within the NAVSUP claimancy. The CKS includes a checklist for file maintenance, in accordance with FAR Part 4.803. FISCSCI Detachment Bahrain and FISCSCI Detachment Dubai provided training on 25 March 2010, on the CKS file maintenance checklists for use in all files, "SAP Contract Index." (See Attachment D)

4. The Quality Assurance Self Assessment (QASA) requires the quarterly review of 10 percent of contract files with a value under \$100,000, and 100 percent review of contract files over \$100,000. These reviews are completed on a quarterly basis and provide management with the opportunity to identify any systemic issues or specific contracting officers who may need additional guidance.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 2

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices, ensure contracts entered into on behalf of the Government are awarded by the appropriate contracting office, and that the appropriate procurement authority exists before awarding contracts for construction or real property in accordance with NAVSUPINST 4200.85D.

NAVSUP comment: Concur. Our assumption is that the above recommendation is in relation to the paragraph entitled FISCSCI Warranted Contract Authority on page 5-6 of the Revised Draft Audit Report, N2008-NAA000-0123, dated 7 April 2010. This paragraph cited three specific contracts as being in violation of procurement authority. Two of them were for the long term lease of villas (12 month). FISCSCI Detachment Bahrain and FISCSCI Detachment Dubai concur that it would have been more appropriate for these actions to be executed by Navy Facilities Engineering and Acquisitions. The third contract is in relation to modular buildings. FISCSCI Detachment Bahrain and FISCSCI Detachment Dubai do not concur with the assertion that they do not have the proper authority to purchase modular buildings or that they are considered construction.

FISCSCI Detachment Bahrain and Detachment Dubai conducted training on 22 March 2010 (See Attachment E), for their contract specialists and contracting officers on the definition of construction and real property to ensure that future violations do not occur. A NAVFAC representative was also on hand to assist in clarifying the distinctions.

Controls to ensure full compliance with the NAVSUPINST 4200.85D delineation of contract authority are in place via the Quality Assurance Self-Assessment (QASA) program, which provides for quarterly reviews of files as noted in the response to Recommendation 1. In addition, the Quality Assurance Program Manager (QAPM) at FISCSCI Code 200 receives a copy of the weekly Work in Process (WIP) report distributed on Mondays, showing all work under the FISCSCI purview. The QAPM reviews every report

and investigates any purchase requests that raise a question as to the proper use of NAVSUP contracting authority.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 3

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices comply with FAR 1.602, "Contracting Officers," FAR 1.602-1, "Authority," and FAR 1.602-2, "Responsibilities," when awarding and monitoring contract actions.

NAVSUP comment: Concur. Sufficient policy and guidance has been provided to ensure that contracting offices comply with their proper authority and responsibility.

Actions Completed:

The following two policies have been implemented which provide FISCSCI Detachment Bahrain, Detachment Dubai and Detachment Naples controls and oversight of contracting officers:

1. Policy Memorandum #07, Subj "REVIEW AND APPROVAL OF ACTIONS BETWEEN \$100,000 AND \$1,000,000" was issued on 18 July 2008 (See Attachment A).
2. Policy Memorandum #02, Subj "CONTRACT REVIEW BOARD" (CRB) issued on 10 March 2008 (See Attachment B).

Additionally, the QASA program, as previously indicated in response to Recommendation 1, requires a review of 10 percent of all actions with a value of \$100,000 or less and 100 percent review of all actions with a value over \$100,000. These reviews are completed on a quarterly basis and provide management with the opportunity to identify any systemic issues or specific contracting officers who may need additional guidance.

Furthermore, FISCSCI Detachment Bahrain holds weekly work in process/staff meetings which the Officer in Charge, the Director of Acquisition, and Legal Counsel all attend. FISCSCI Detachment Dubai holds work in process/staff meetings three times weekly which the Officer in Charge and Director of Acquisition for FISCSCI Detachment Dubai attend. During these meetings all in-process procurements are discussed to ensure that every procurement is being properly executed.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 4

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices process the unauthorized commitment made by unwarranted government personnel on the USNS Catawba in FYs 2006 through 2007, using the ratification authority of NAVSUPINST 4200.81D, and FAR 1.602-3(b)(1), (2), and (5)(c), "Ratification of Unauthorized Commitments."

NAVSUP comment: Concur. Adequate controls and oversight have been implemented to ensure the proper tracking and processing of unauthorized commitments.

Actions Completed:

Policy Memorandum #05 (See Attachment F), Subj: "Ratifying Unauthorized Commitments" issued on 23 April 2008, which encloses NAVSUPINST 4200.81E, provides clear and concise guidance for the processing of unauthorized commitments.

Additionally, paragraph 2a of the policy requires the contract specialist to "Upon receipt of the unauthorized commitment package, contact via email the FISC Sigonella Naval Regional Contracting Detachment Naples (FISCSCI NRCD Naples) Policy, Assessment, and Training/Procurement Performance Management Assessment Program Department (PAT/PPMAP) to receive a tracking number." The PAT/PPMAP department is then responsible for the overall tracking of unauthorized commitments.

Action to be completed:

A review of the contract file N49400-07-P-G042 indicates that the unauthorized commitment supporting documentation was not properly executed. Corrective action is underway, with all appropriate supporting documentation and approvals for the subject contract anticipated to be completed by 30 April 2010.

Recommendation 5

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices obtain legal counsel review of all ratifications of unauthorized commitments in accordance with the NAVSUPINST 4200.81D.

NAVSUP comment: Concur. Adequate controls and oversight have been implemented to ensure legal counsel review of all ratifications.

Actions Completed:

Policy Memorandum #05, Subj: "RATIFYING UNAUTHORIZED COMMITMENTS" was issued effective 23 April 2008 (See Attachment F). The policy includes two enclosures required to be used to: (1) prepare the determination and findings for signature by the ratifying official, and (2) prepare the recommendation to the ratifying official. These documents require certification of legal review as follows:

(1) Paragraph 2(e) of the Determination and Findings template requires the Ratifying Official to certify that "the contracting officer recommended payment and legal counsel concurred in the recommendation."

(2) Paragraph 2(e) of the Recommendation to Ratify Unauthorized Commitments from the contracting officer to the ratifying official, requires the contracting officer to certify that "Payment is recommended and legal counsel concurred in the recommendation."

Chief of the Contracting Office, FISCSCI is the Ratifying Official for all unauthorized commitments up to \$50,000. Over \$50,000, unauthorized commitments must be passed through the Director of Contracting for FISCSCI and forwarded to NAVSUP. Due to the required certification of both the Contracting Officer and the FISCSCI Chief of the Contracting Office, as well as that legal counsel has conducted the review of all ratifications of unauthorized commitments, adequate controls are in place.

Note: The current NAVSUP Instruction for Referral of Contractual matters to the Office of Counsel is: NAVSUP INSTRUCTION 5801.1, DATED SEPT 08, 2009, SUBJ: REFERRAL OF CONTRACTUAL MATTERS TO THE OFFICE OF COUNSEL.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 6

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices close out contracts timely, and in accordance with the FAR, and that unneeded funds are deobligated and returned to the requesting offices.

NAVSUP comment: Concur. Progress is being made toward completing the close out of backlogged contracts eligible for close out. Adequate controls and oversight are in place.

Actions Completed:

Policy Memorandum #09, "CLOSE OUT OF CONTRACT FILES" dated 11 July 2008 (See Attachment G), provides controls and oversight into the status of the number of contracts requiring close out and the process for which contracts are to be closed out.

Additionally, a Procurement Performance Management Assessment (PPMAP) of FISCSCI Detachment Bahrain and FISCSCI Detachment Dubai was completed in December 2009. The preliminary findings of the PPMAP also outlined the continued need for emphasis on timely contract close out.

At FISCSCI Detachment Bahrain a huge push to complete all over-aged contract close outs began November 2009. Since November 2009, a total of 1,315 contracts have been closed out, showing significant progress. There are approximately 2,200 contracts remaining.

FISCSCI Detachment Dubai has concentrated on closing out contracts in a timely manner during FY09 and FY10, and currently has a minimal remaining amount of 65 outstanding eligible for close out.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 7

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices conduct more thorough reviews of data input(s) to the FPDS-NG in accordance with the FAR.

NAVSUP comment: Concur.

Actions Completed:

FISCSCI Detachment Bahrain and FISCSCI Detachment Dubai are continually striving to ensure that data entered into FPDS-NG is as accurate as possible through training, monitoring, and oversight. Necessary controls and oversight are in place.

There are three forms of oversight currently in place for the data input into FPDS-NG:

1. The Office of the Lead Functional Executive (COMFISCS), through their SPS Functional Coordinator, requires the completion of a quarterly review- the Independent Verification and Validation (IV&V). This is a detailed review of a sampling of Contract Action Reports (CARs) submitted into FPDS-NG during the quarter. A copy of the instructions for the review and the FY09 QTR 4 CARs reviewed for FISCSI is attached (See Attachment H).

2. The Quality Assurance Self Assessment (QASA), which is completed on a quarterly basis requires management review of data entered into FPDS-NG. The questions contained within each QASA review are dependent upon the contract action type. However, the following two questions regarding CARs are included in QASA reviews for all contract action types:

a. Was the DD Form 350/CAR completed timely and signed IAW PGI 204.670-3?

b. Was the DD Form 350/CAR coded correctly?

Results from the QASA reviews are utilized as both a training and a feedback tool. Each contract specialist and contracting officer is returned their files after the review is completed and is required to certify that they have reviewed the results.

3. Additionally, the PPMAP review which was completed in December 2009, indicated in their preliminary findings some discrepancies in CARs that were reviewed. FISCSI Detachment Bahrain and FISCSI Detachment Dubai will be required to respond to these findings as appropriate.

The following two formal training sessions have been completed:

1. COMFISCS required all personnel to receive Data Integrity in Contracting training (See Attachment I) in February 2008.

2. The Lead Contracting Executive at COMFISCS provided/required FPDS-NG Refresher training for contract specialists via phone conference in June 2009 (See Attachment J).

3. Additional FPDS-NG on site training was held for all-hands on 18 March 2010.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 8

Improve controls and oversight over the NAVSUP QASA program to ensure the program meets the intent of FAR 4.602, FAR 4.8, and DFARS 204.8.

NAVSUP comment: Concur. The overall controls and oversight of the QASA program is the responsibility of NAVSUP. FISCSCI Detachment Bahrain and FISCSCI Detachment Dubai do not have the authority to implement controls and oversight over the NAVSUP QASA program.

The audit was conducted at the inception of the QASA implementation in FISCSCI Detachment Bahrain and Dubai. Since the time of the audit, the QASA program has been followed as prescribed by NAVSUP. The QASA program is a thorough, comprehensive review which occurs quarterly on a minimum of 10 percent of all contract actions awarded during the prior quarter. Attachment K details the QASA process as prescribed by NAVSUP. Both FISCSCI Detachment Bahrain and Dubai have conducted their quarterly reviews beginning the third quarter of fiscal year 2007 to the most recent review for the first quarter of fiscal year 2010. The results of these reviews are provided to individual personnel, and trends or problem areas that are identified are the basis for various training sessions to ensure continuous improvement in the quality of all aspects of the procurement.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 9

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices obtain management approval for assignment of all DUNS/CAGE numbers, and to track and monitor the use of default DUNS numbers. If a local contractor/vendor does not have a DUNS/CAGE number, assign the contractor a number.

NAVSUP comment: Concur. Contracting Officers do not have the authority or the ability to assign contractors DUNS/Cage numbers and therefore compliance with the above statement as written is not possible.

Note: The following information is based upon the assumption that Recommendation 9 is derived from information contained within paragraph entitled "Data Integrity Using Data Universal Numbering System (DUNS) Numbers in the FPDS-NG" found on pages

10-11 of the N2008-NAA000-0123, 7 April 2010 Revised Draft Audit Report.

A contractor must have a valid Central Contractor Registration (CCR) in order to have a valid DUNS number to be utilized in the FPDS-NG system. Contracting Officers do not have authority cognizance over the CCR system, it is under the cognizance of a completely separate organization. Outside of the Continental United States (OCNUS), it is common for contractors who do not frequently conduct business with the US Government to not be registered, additionally some contractors are very skeptical of the US and refuse to be registered. The registration process itself can easily take 1-3 weeks. FISCSI has no control over this process.

In order to stem the number of contracts awarded to contractors without CCR registration, Policy Memorandum #16, Subject "CCR REQUIREMENT FOR OOTW MISSION" was issued on 07 April 2009 (See Attachment L). This policy requires Contracting Officers to obtain approval prior to execution of a contract with a contractor who is not registered in CCR from either the Chief of the Contracting Office or the Deputy Chief of the Contracting Office at FISCSI.

According to FAR 4.1102(a)(5), foreign vendors do not have to be registered in the CCR if it is impractical to obtain registration. Therefore, in order to be able to report the action through FPDS-NG, a Generic DUNS and Cage Code were created. The generic DUNS and Cage Code are included in SOP 1-2, "SPS VENDOR MAINTENANCE REQUIREMENTS," issued by the office of the Lead Contracting Executive, COMFISCS (See Attachment M).

SOP 1-2 also includes procedures to be followed for when an award is to a foreign vendor and they are not registered in the CCR. Essentially, a CCR waiver must be signed by only the Contracts Director or Deputy. This waiver allows for use of the generic DUNS and Cage Codes, which is the DUNS number being utilized for all contracts awarded to foreign non-CCR registered contractors (123456787). This number was specifically created by CCR for this exact purpose. When the number is entered into the CCR system, the following information appears (See Attachment N):

Legal Business Name: Miscellaneous Foreign Contractors
Doing Business As (DBA): Federal EGOV IAE Initiative: Generic
DUNS
Mailing Name: Generic DUNS - Miscellaneous Foreign Contractors.

Based upon the above, proper control and oversight has been implemented to ensure that contractors are CCR registered to the extent possible. Additionally, the proper DUNS number for foreign non-CCR registered contractors is being utilized when required.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 10

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices make certain that the Fleet Liaison Officer and the contracting officer review every port visit to assure compliance with Naval Regional Contracting Center Instruction 4330.

NAVSUP comment: Concur.

Action Completed:

Policy Memorandum #20, Subj "PORT VISIT AND HUSBANDING CONTRACT ADMINISTRATION PROCEDURES" was issued 27 November 2009 (See Attachment O). Paragraph 4 of the policy states "The Directors of Acquisition and the detachment Officers in Charge will ensure that their Fleet Liaison Officers (FLO) and Contracting Officers (KO) review all port visits to assure compliance with the procedures set below..." Note: Naval Regional Contracting Center Instruction 4330 was cancelled with the issuance of FISCSCI PM#20, and further replaced with PM#20A see paragraph 3 of the policy memorandum.

Also note, the Husbanding contract allows for ordering officers other than FISCSCI personnel. These ordering officers are typically Supply Officers who have the full authority, training, and ability to place orders directly against the Husbanding contract.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 11

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices establish effective

communications between the FISCSCI Contracting Office and U.S. Navy ships to prevent future occurrences of unauthorized commitments.

NAVSUP comment: Concur.

Actions Completed:

A FISCSCI representative has attended all pre-deployment conferences on behalf of FISCSCI Detachment Dubai, FISCSCI Detachment Bahrain, and FISCSCI Detachment Naples since September 2008. In addition to presenting (and supplying a copy of) the FISCSCI Navy Regional Contracting Detachments Naples, Bahrain, and Dubai Deployment Brief (See Attachment P), each ship is provided with two CDs - one covering the Mediterranean wide contract and the other the Southwest Asia contract.

FISCSCI controls to preclude further unauthorized commitments consist of the improved communication at the pre-deployment conferences noted above, along with the establishment of a FISCSCI Code 200 internet location at the MyNAVSUP portal with a page dedicated to customer interaction and education, anticipated for completion by 31 May 2010. However, it should be noted that unauthorized commitments by nature are accomplished by personnel who are not authorized to make such commitments. Personnel onboard ships are not under the direct cognizance of FISCSCI authority - as such controls provided by FISCSCI are limited in nature to efforts to improve communication and education, which FISCSCI has already accomplished.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 12

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices perform effective source selection, to include market research, technical evaluation, promoting competition, and preparing Independent Government Estimates (IGEs) to determine that the proposed price and services are fair and reasonable in accordance with the FAR, DoD, and DON acquisition regulations.

NAVSUP comment: Concur. Adequate controls and oversight have been implemented to ensure contracting offices perform effective source selection, to include market research, technical evaluation, promoting competition, and preparing Independent

Government Estimates (IGEs) to determine that the proposed price and services are fair and reasonable.

Note, the quality of these actions highly depend on training, skill level and experience of individual contract specialists and contracting officers. Therefore as the workforce changes, the process of ensuring the duties listed above properly executed continues to be an on-going management requirement.

Actions Completed:

FISCSI Detachment Bahrain and FISCSI Detachment Dubai continually strive to improve in the areas listed above in Recommendation 12. This is done through oversight, policy and training.

The following two policies were implemented by FISCSI to provide additional oversight:

1. Policy Memorandum #02, Subj "CONTRACT REVIEW BOARD" (CRB) issued on 10 March 2008 (See Attachment B).
2. Policy Memorandum #07, Subj "REVIEW AND APPROVAL OF ACTIONS BETWEEN \$100,000 AND \$1,000,000" was issued on 18 July 2008 (See Attachment A).

The following two policies were implemented by FISCSI to foster market research, promotion of competition:

1. Policy Memorandum #03, Subj "POSTING OF REQUIREMENT ON EURONECO" was issued on 22 April 2008 (See Attachment Q).
2. Policy Memorandum #13, Subj "COMPETITION ADVOCATE PROGRAM" was issued on 10 September 2008 (See Attachment R).

The Simplified Acquisition Procedures (SAP) Guidebook for Use outside the United States, issued October 2009 (See Attachment S), contains guidelines to aid contract specialists in source selection, market research, technical evaluation, competition and IGEs for actions under the SAP threshold.

FISCSI Detachment Bahrain completed the following relevant in-house training sessions in FY09:

1. Acquisition Process and Determination of Fair and Reasonable Pricing, 03 December 2008.
2. Market Research, 19 April 2009.
3. Fair and Reasonable Determinations, 03 June 2009.

4. Publicizing Contract Actions, 26 August 2009.

FISCSI Detachment Dubai is a small office and conducts regular on the job training as required.

There are two major checks and balances in place:

1. Quality Assurance Self Assessment Program (QASA). This program was in its infancy in January 2008, at FISCSI Detachment Bahrain and FISCSI Detachment Dubai when the Draft Audit Report N2008-NAA000-0123, initial visit/review occurred. As it has been fully implemented it has grown in its significance and its ability to track issues.

2. Performance Management Assessment Program (PPMAP). FISCSI Detachment Bahrain and FISCSI Detachment Dubai undergo regular PPMAP reviews by NAVSUP, the most recent was 09-15 December 2009. The preliminary findings did show room for improvement in the areas listed in Recommendation 12 above. FISCSI Detachment Bahrain and FISCSI Detachment Dubai will be required to follow through with recommendations from the PPMAP review.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 13

Require the Commanding Officer, FISC Sigonella to improve controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices develop acquisition plans for procurements in accordance with the FAR and DON Policy Letter 4200 210/7042, and engage customers early in the development of the acquisition to allow sufficient advance notice of contracting requirements to facilitate acquisition planning.

NAVSUP comment: Concur. Per DFAR 207.103, Formal Acquisition Plans are required for service contracts when the total cost of all contracts for the acquisition program is estimated at \$50 million or more for all years or \$25 million or more for any fiscal year. Additionally Acquisition Plans are not required for one time buys.

Under those thresholds, informal acquisition planning in the form of market research, development of independent government estimates, availability of commercial items, ability to compete etc are all required. FISCSI Detachment Bahrain and FISCSI Detachment Dubai have implemented proper oversight and controls to ensure that planning is completed appropriately, also see NAVSUP comment regarding Recommendation 12 above.

The following two policy memorandums have been implemented to provide oversight and controls in order to ensure that contract actions over \$100,000 are properly executed:

1. Policy Memorandum #07, Subj "REVIEW AND APPROVAL OF ACTIONS BETWEEN \$100,000 AND \$1,000,000" was issued on 18 July 2008 (See Attachment A). This policy requires a review of one level above the contracting officer prior to the release of all solicitations, prior to contract execution, and review of file after contract execution for contract actions valued at \$100,000 to \$1,000,000.

2. Policy Memorandum #02, Subj "CONTRACT REVIEW BOARD" (CRB) issued on 10 March 2008, Attachment B requires a review board be conducted for: all Firm Fixed Price actions over \$1,000,000 (for a complete list of all actions requiring a CRB see Attachment B). For actions which require a CRB, the minimal level for chairmanship is the Director of Acquisition. When applicable, CRBs are required to be held prior to solicitation release as well as prior to contract execution. This policy is pursuant to NAVSUPINST 4200.83G.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 14

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices consistently perform legal reviews of contract actions greater than \$100,000, as required by the FISCSCI Instruction 5801.1.

NAVSUP comment: Concur. Adequate controls and oversight have been implemented to ensure legal counsel review of all actions greater than \$100,000.

Actions Completed: Policy Memorandum #07, Subj "REVIEW AND APPROVAL OF ACTIONS BETWEEN \$100,000 AND \$1,000,000" was issued on 8 July 2008 (See Attachment A). This policy requires that prior to issuance of all solicitations and execution of all contract actions over \$100,000 a review of that action by one level above the Contracting Officer be completed. This is a new policy specific to FISCSCI, not predicated by a NAVSUP or other instruction with the sole purpose of ensure that additional oversight is provided for contract actions over \$100,000.

Policy Memorandum #02, Subj "CONTRACT REVIEW BOARD" (CRB) issued on 10 March 2008 (See Attachment B), requires a review board be conducted for: all Firm Fixed Price actions over \$1,000,000, (for a complete list of all actions requiring a CRB see Attachment B). Documentation of legal counsel review is required for CRBs per PM#02. This policy is pursuant to NAVSUPINST 4200.83G.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 15

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices include funding documents in the contract files and deobligate unneeded funds in accordance with PGI 243.171.

NAVSUP comment: Concur. Funding documents are an integral piece of the contract file and are required for proper contract file maintenance. Adequate controls and oversight are in place to ensure proper contract maintenance. See response herein to Recommendation 1 regarding contract file maintenance.

While PGI 243.171 "Obligation or Deobligation of Funds", is not a clear mandate to deobligate funds, a clear mandate for deobligation of excess funds on a contract after final payment is made is stated in FAR 4.804-5(a)(15) and FAR 42.302(a)(70). As part of the standard contract closeout process, excess funds on procurement actions that are not subject to the automatic foreign currency fluctuation (FCF) adjustments are deobligated prior to closing out the contract. Attachment T, which is a supplementary handout to the closeout process, ensures a full understanding of the requirement to deobligate funding as well as the functioning and applicability of the FCF. This handout was provided to all FISCSCI personnel to ensure understanding and compliance for deobligation.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 16

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISCSCI Detachments Bahrain and Dubai contracting offices make certain that funding documents received are approved by the appropriate personnel in accordance with NAVSUPINST 4200.85D, FAR, DoD FMR, NAVCOMPT 2276, and SECNAVINST 5216.5D.

NAVSUP comment: Concur. Adequate controls and oversight have been implemented to ensure that funding documents received are approved by the appropriate personnel.

Actions Completed:

The following policy has been issued and implemented regarding the submittal, receipt, and acceptance of funding:

Policy Memorandum #12, Subj: "ACCEPTING FUNDING VIA WEB ONE TOUCH FINANCIAL (WEBOTF)" dated 16 July 2008, clearly outlined the receipt and acceptance of funding. Additionally, it included an Enclosure slide presentation depicting the process (See Attachment U).

Policy Memorandum #12-CH01, Subj: "ACCEPTING FUNDING VIA WEB ONE TOUCH FINANCIAL (WEBOTF)" dated 28 January 2009, provided an update to the policy released in July 2008, along with updated FISC slides depicting the process (See Attachment V).

Policy Memorandum #12A, Subj: "ACCEPTING FUNDING VIA WEB ONE TOUCH FINANCIAL (WEBOTF)" dated 06 January 2010, provided further updated guidance (See Attachment W).

The Commander, Fleet Industrial Supply Centers issued Memorandum Ser 013/456, entitled "COMMANDER, FLEET AND INDUSTRIAL SUPPLY CENTERS (COMFISCS) AUTOMATED INCOMING DIRECT CITE (REQUEST FOR CONTRACTUAL PROCUREMENT) DOCUMENT CONTROL PROCEDURES, dated 04 March 2009, provided additional specific guidance regarding the submittal of direct site funds for contractual procurements (See Attachment X).

Action on this recommendation is considered complete for reporting purposes.

Recommendation 17

Require the Commanding Officer, FISC Sigonella to establish controls and provide oversight to ensure that FISC SI Detachments Bahrain and Dubai contracting offices require contractors/vendors to provide invoices that identify all products or services delivered, and that all invoices are supported by receiving reports or other Government documentation authorizing payment, as required by the FAR, DFARS, and DoD FMR.

NAVSUP comment: Concur. FISC Sigonella agrees that contracts must require receipt of proper invoices from contractors and the Government must provide proper documentation authorizing

payment. FISCSI Detachment Bahrain and Detachment Dubai currently require that all contractors submit proper invoices.

Regarding Government Documentation, FAR 32.905 states "All invoice payments, with the exception of interim payments on cost-reimbursement contracts for services, must be supported by a receiving report or other Government documentation authorizing payment (e.g. Government certified voucher). Note, the Government certified voucher is an example used by the FAR, not a requirement. FISCSI Detachment Bahrain and Detachment Dubai satisfy this requirement through Government certification of the contractor provided invoices, thereby providing documentation. This process fulfills the intent of Government provided documentation outlined within FAR 32.905 as long as the minimum information required at (c) is provided in the documentation. Additionally the Region (EURAFSWA) Disbursing Officer, at the Commercial (Vendor) Bill Pay Office (CBPO), has consistently accepted this form of Government documentation as the basis for contract payment.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 18

Require the Commanding Officer, FISC Sigonella to improve controls and provide oversight to ensure that FISCSI Detachments Bahrain and Dubai contracting offices separate among different individuals the responsibilities for the tasks of initiating, authorizing, processing, recording, and reviewing transactions in accordance with DoD FMR and NAVSUPINST 4200.85D.

NAVSUP comment: Concur. Separation of duties is extremely important for contract cycle integrity. The Draft Audit Report, N2008-NAA000-0123, only sited one incident at which a lack of segregation occurred between two duties, contracting officer and contract invoice/certification. FISCSI does not concur that one instance is indicative of a potential systemic problem. Additionally, training has been conducted on the topic and the Commercial (Vendor) Bill Pay Office (CBPO) serves as a check and balance.

On 4 December 2008, the CBPO provided detailed certifying officer training.

In February 2009, the local Commercial Bill Pay Function was consolidated and moved to Naples, Italy and currently resides with the Region (EURAFSWA). The CBPO reviews all invoices and double checks to ensure that the contracting officer and the certifying officer are two different individuals.

Action on this recommendation is considered complete for reporting purposes.

Recommendation 19

Require the Commanding Officer, FISC Sigonella to include contract award, administration, and oversight as an assessable unit in its Managers' Internal Control Program and perform regular management control reviews of FISCSI Detachments Bahrain and Dubai contracting offices to ensure problems and internal control weaknesses identified in this report are corrected.

NAVSUP comment: Concur. Contract award, administration and oversight have been included as assessable units under FISCSI's Manager's Internal Control Program.

Action Completed:

The Commander, Fleet Industrial Supply Centers issued FISCSI NOTICE 5000.2, Subj: "FY10 MANAGEMENT INTERNAL CONTROL ASSESSABLE UNITS", dated 30 October 2009, which lists FISCSI's program assessable units for FY10 (See Attachment Y).

Action on this recommendation is considered complete for reporting purposes.

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